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NEWS SUMMARY

GENERAL

Triple killer dies in shoot out

The hunt for triple killer Barry Prudom ended when he died in a shootout with police marksmen.

Prudom, also armed with a machette, opened fire after refusing to surrender at a tennis club in Malton, North Yorkshire, yesterday, after a 17-day search.

The net closed on the killer, whose victims included two policemen, after he held a couple hostage in the town.

Korchnoi 'wins'

Chess grand master Victor Korchnoi was reunited with his family in Zurich, after they won a six-year battle to leave the Soviet Union.

Jenkins decision

Roy Jenkins, after his SDP leadership election victory, said he intends to resign as a director of the merchant bank Morgan Grenfell. Back Page

Shuttle lands

The U.S. space shuttle landed in California after its fourth and final test flight. President Reagan was among 500,000 sightseers who watched the touch down.

Soviets expelled

The Netherlands expelled two Soviet diplomats accused of spying on Dutch and Nato military facilities, an Amsterdam newspaper reported.

Disco report

Compensation claims amounting to £10m are likely to be started after publication today of a hard-hitting report into the Stardust Club disco blaze in Dublin, in which 48 died.

Hijacker held

Sri Lankan Sepala Ekanayake, who obtained a £175,000 ransom after hijacking an Italian airliner and getting safe conduct out of Thailand, has been arrested after a two-day spending spree in Sri Lanka.

Spanish blast

A Spanish Civil Guard was killed and another injured when a nailbomb blew up their car near Pamplona. Page 2

Vatican claim

Makers of £1m worth of unsold papal souvenirs are seeking compensation from the Vatican. Papal "licensees" said delay in deciding whether the Pope's visit to Britain would go ahead, contributed to bad sales.

President dies

Dominican Republic President Antonio Guzman, 71, died in a shooting incident which was described by the country's defence minister as accidental.

Transport move

The Government is expected to introduce a Short Bill in the next Parliamentary session which will remove London Transport from the Greater London Council's control. Page 6

Connors triumph

Jimmy Connors, who won the Wimbledon men's title in 1974, recaptured it beating John McEnroe 3—6, 6—3, 6—7, 7—6, 6—4.

World Cup

Northern Ireland's challenge ended when they were beaten 4—1 by France. Gerry Armstrong scored their goal.

Briefly . . .

Archbishop Annibale Bugnini, the papal nuncio to Iran, died in Rome, aged 70.

Polish couple and their child flew to Austria in a helicopter and asked for asylum.

BUSINESS

Tory call for shift to private ownership

● THE CONSERVATIVE Party manifesto for the next General Election should concentrate on shifting to private enterprise many of the activities now carried out by the public sector. This view was voiced at the weekend by Sir Geoffrey Howe, the Chancellor, in a Cambridge lecture. Back Page

● SAUDI ARABIA and other Gulf oil producers are expected to press African exporters to raise the price of high-quality crudes by at least $1.50 a barrel at this week's Opec meeting. Page 2

● MERCHANT BANKS are losing a significant share of pension fund asset management to other financial institutions. Page 6

● AUSTIN ROVER group of BL will ask UK component suppliers to cut prices further or risk the Corporation buying from overseas. Page 6

● ISLE OF MAN Government has asked the Bank of England to review the structure of island banking after recent bank collapses. Back Page

● GUINNESS PEAT, the troubled group which on Friday disclosed a £15m loss provision, is to sell control of its commodity business to investors led by Lord Kissin in a £11m deal. Back Page

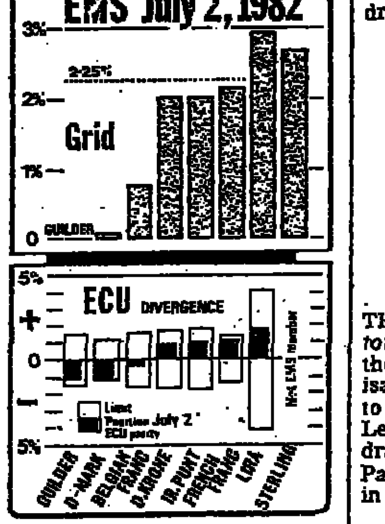
● NISSAN of Japan, which makes Datsun cars, will almost certainly shelve plans to build a UK car plant. Back Page

● CHEMICAL BANK, of the U.S., is expanding activities in Europe. Page 6

● BALFOUR BEATTY and Dominion Bridge, of Toronto, have won a construction contract from Indonesia worth $73m (£42.1m) for a coal terminal. Page 4

● INCO nickel production workers in Toronto have voted to end their 32-day strike, but will not resume work due to extended summer closure. Page 16

● CURRENCIES remained within the agreed divergence limits of the European Monetary System since last month's devaluation of the French franc and Italian lira and revaluation of the D-mark and Dutch guilder. The lira has since been the strongest member of the system, followed by the French franc, while the D-mark and guilder finished last week virtually level at the bottom of the EMS. Easing of pressure has enabled the Bank of France to reduce steadily interest rates, including a cut of 0.25 per cent to 15 per cent on Friday in the bank's money market intervention rate.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid based on the weakest currency in the system defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU) itself a basket of European currencies.

CONTENTS

Strike hobbles BR but drivers' attitude will be clearer today

BY IVO DAWNAY, LABOUR STAFF

THE STRIKE by the train drivers' unions brought the British Rail (BR) network to a virtual standstill yesterday, though managers believe that the true level of support for the action will only become evident today.

Some trains, particularly in the Southern, East Midlands and North Eastern regions, completed their journeys and BR claimed that sporadic services were maintained on the London to Gatwick and boat train routes.

However, it acknowledged that no more than 85 drivers out of a total of more than 5,000 reported for duty. Of the 85, fewer than 20 were members of the striking Associated Society of Locomotive Engineers and Firemen (Aslef).

Mr Clifford Rose, BR's industrial relations director, said that today would prove the "acid test" of how Aslef's 20,000 members reacted. "We are fairly sure there is a lot of concern being expressed down the line and a lot of drivers are conveying their concern to the leadership," he said. "How that concern manifests itself remains to be seen."

But Mr Ray Buckton, the Aslef general secretary, said that action yesterday had demonstrated the drivers' united response to BR's "provocative action" in refusing to accept the union's proposals for a peaceful settlement.

"Footplatemen are united, in spite of the massive campaign being waged by the British Rail Board, the Government and the media," he said. "The Board's actions must now be condemned by the trade union movement and the people of this country."

However, BR managers and Aslef officials recognise in private that the outcome of the dispute depends on the extent to which drivers turn up for work over the next few days. If the trickle of Aslef drivers working becomes a stream, BR will continue in its attempts to run a service. But, if there is no significant rank-and-file revolt against the strike, the Board will begin to implement plans for a total shutdown of the railway—possibly as soon as next Sunday.

Letters, to state that drivers were deemed to have dismissed themselves by going on strike, could be distributed in the middle of the week, as could notices of suspension to the 250,000 members of the National Union of Railwaymen and the Transport Salaried Staffs' Association.

BR believes that to lay off all its staff, including those not on strike, would underline its determination to see the strike through and would put extra pressure on Aslef.

But a lay-off would also be necessary to retard the rapid deterioration of its position. The Government's public service obligation grant of £15m a week has already been withdrawn and BR expects to exhaust its £150m Government "overdraft" facility within a fortnight. Lost receipts of £6m a day would leave BR unable to pay its £35m-a-week wages bill.

A patchy return to work would not be enough to satisfy the BR Board that a reduced service was worth operating. Managers will be looking carefully today at the turnout in its high-earning areas, such as Southern Region's commuter routes and the main industrial goods services in the north of England. BR is especially concerned lest it lose vital contracts with the National Coal Board, the Central Electricity Generating Board, the Post Office and national distributed newspapers.

Rail services reported by BR to be operating partly yesterday included: Newcastle-Edinburgh; Cardiff-Bristol; Birmingham-Leicester; London Victoria-Gatwick; Victoria - Dover; London Liverpool Street-Southend and various local services across the country. The vast majority of those trains were driven by NUR members. That union accounts for only 1,600 BR drivers, compared to more than 18,000 represented by Aslef.

Coach links to Harwich and the Channel ports have been laid on, though travellers to the Republic of Ireland, the Isle of Man and the Isle of Wight have been advised to make their own way to the docks.

Sealink UK, BR's boat ferry subsidiary, reported normal working yesterday, though a separate dispute at Harwich has left only Dutch ferries serving the route.

Miners prepare for tough action in pursuit of 31% wage claim

BY JOHN LLOYD, LABOUR EDITOR

THE National Union of Mineworkers is set to approve tomorrow a wage claim of 31 per cent, which is likely to be backed by tight central control of pay negotiations and a threat of strike action if talks break down or are prolonged.

The strongly worded claim comes as the coal industry faces serious financial problems due to lack of demand. It will put the mineworkers in direct confrontation with the Government early in the pay round and provide a gruelling test for the union's new president, Mr Arthur Scargill.

Mr Scargill said yesterday he believed a pay battle and the dispute with the board over pit closures could become intertwined.

He hoped that the mineworkers' conference, which begins in Inverness today, would reaffirm a position of total support for the train drivers' strike. He added that he believed that miners would be "inexorably" drawn into the rail dispute, since coal would not be moved and overflowing stocks would stop production.

He intends to seek an in-principle agreement for industrial action—including strike action—over the closures issue. Members will be balloted. He said that acceptance of the executive's report, to be presented to the confrence, would mean acceptance of the need for direct action over the issue.

He also revealed that the National Coal Board was to make a common plea with the NUM to the Government for a change in the Mines and Quarries Act, whereby mineworkers would work a shorter week but longer shifts. Mr Scargill said the executive had unanimously rejected the plan, since itd id not propose to cut total hours worked in a week.

The NCB estimates that the claim, for a basic minimum of £115 for the lowest-paid grade ofsurface worker (S6) with similar percentage increases for other grades, would cost £420m a year. It would bring the basic minimum for face workers up to nearly £160 and average earnings for face workers to nearly £220.

The draft claim already has the backing of powerful areas, such as Yorkshire, South Wales and Scotland, and sets out a tough programme for prosecuting it. If passed, it will be sent to the board after the first executive meeting following the conference. It demands that negotiations be completed by the November 1 settlement date.

The negotiating committee, made up of one executive member from each NUM area, must report back to the full executive at every stage of negotiations; failure to agree to the demands or to observe the timetable will result in the calling of a special national delegate conference.

Israel rejects PLO demand to retain some presence in Lebanon

BY DAVID LENNON IN TEL AVIV AND JAMES BUCHAN IN BEIRUT

THE Israeli Cabinet yesterday *totally rejected demands from* the Palestine Liberation Organisation that it should be allowed to retain some presence in Lebanon in return for the withdrawal of the estimated 6,000 Palestinian guerrillas trapped in West Beirut.

At the same time Israeli forces tightened their grip on the western part of the Lebanese capital, shelling the southern suburbs and blocking the flow of vital food and other supplies from the east.

But after the Israeli Cabinet meeting in Jerusalem, senior officials said they had received optimistic reports from the U.S. on the progress of diplomatic negotiations designed to persuade the PLO guerrillas to leave Beirut.

The officials said the Cabinet had not received any written proposals or detailed plan for ending the crisis. But, because of Press reports of a six-point plan signed by Mr Yasser Arafat, the PLO chairman, the Cabinet decided to clarify its position.

A Cabinet communique stated: "The Government of Israel rejects without any qualifications whatsoever every proposal concerning any presence . . . political, organisational, military-symbolic . . . of terrorists in Lebanon. All of them, without any exception, should leave Lebanon. No change in the existing lines in Lebanon will be carried out *without the consent of the* Government of Israel."

But to soften the tone of the statement, a senior official said afterwards that Israel would grant the U.S. more time to try to negotiate a PLO withdrawal.

He said that there was a problem in judging whether the PLO was seriously negotiating a peaceful withdrawal, or merely playing for time. This stems, the official said, from the fact that communications are so indirect and so many intermediaries are involved in the negotiations.

In Beirut, Mr Saeb Salam, the former Lebanese premier who is playing a vital role in the negotiations, said yesterday he believed that Mr Philip Habib, the U.S. envoy, supported the idea of a multinational force entering West Beirut and supervising the disengagement of forces and the security of the city.

This suggestion is being vigorously backed by the French whose special envoy M Francois Gutmann is reported to have said that such a force could be formed within 24 hours.

In Cairo, senior Egyptian officials said that President Hosni Mubarak had received a "very important" letter from President Reagan on ways of solving the Lebanon crisis.

The main Egyptian concern was said to be preventing an all-out Israeli assault on Beirut *and officials hoped that the U.S.* would not veto a new United Nation's Security Council resolution being prepared in cooperation with France.

Colonel Muammar Gaddafy, the Libyan leader, yesterday urged the PLO leaders in Beirut to commit suicide "rather than accept shame."

Your suicide will immortalise the Palestinian cause for future generations," he wrote in a telegram. "Your blood will fuel the inevitable revolution from the Atlantic Ocean to the Gulf."

The Israeli Cabinet explained yesterday that it would not be deflected from its path by anti-war demonstrations such as the huge rally in Tel Aviv's municipal square on Saturday night which police estimate was attended by 70,000 people.

The demonstration was organised by the Peace Now Movement and called for an end to the fighting, a negotiated peace with the Palestinians and the dismissal of General Ariel Sharon, the Defence Minister.

There were clashes on the occupied West Bank yesterday between Israeli troops and Palestinians demonstrating against the Israeli invasion of Lebanon. A number of Palestinians were reported injured.

There was also a partial commercial strike on the West Bank as many shopkeepers responded to a call to close down for two days.

Sluggish economic recovery forecast

By Max Wilkinson, Economics Correspondent

THE RECOVERY of the UK economy will be very sluggish this year, with a slow improvement in 1983, according to a Financial Times analysis of 15 leading forecasts.

The consensus points to a growth of output of little more than 1 per cent this year, compared to the level last year, with growth next year of just over 2 per cent.

The forecasters surveyed include the Treasury, the International Monetary Fund, leading independent UK forecasters as well as university and City groups.

The latest FT average prediction reflects a general increase in pessimism since the spring, when the Treasury and many other forecasters were expecting growth of about 1½ per cent or even more for this year.

However, the rise in U.S. interest rates, the strength of the dollar, the sluggishness of output during the winter and renewed anxieties about the trend of imports have led the Treasury team and most others to lower their sights.

CONSENSUS OF FORECASTS, UK ECONOMY
Annual per cent increase

	1982	1983
Output	1¼	2¼
Inflation (4th quarter)	8¾	8
Unemplymt. (adult, m)	3	3.1

The FT average prediction for growth this year indicates a broad consensus rather than any precise forecast. It is almost exactly the same as the consensus which emerged from a similar exercise in December. This suggests that those forecasters who were encouraged this year, by the hope of falling interest rates and other favourable factors have reverted to a more cautious view.

The forecasters are significantly more optimistic, though, about the prospects for inflation than they were at the end of last year. The consensus now points to an annual rate of less than 9 per cent by the end of this year.

The forecasters are also looking for a substantially lower public sector borrowing requirement for this year than they previously expected. The general view is that borrowing could be perhaps £750m less than the £9.5 bn predicted by the Treasury in March.

Details, Page 6; Lombard Page 13

EEC considers new sources to boost budget

BY JOHN WYLES IN BRUSSELS

PLANS to diversify the European Community's sources of budget revenue are being developed within the European Commission in anticipation of the need for extra income in the 1984 budget year. Member governments may be asked to adopt a combination of budget measures including an EEC energy import tax and industrial levies.

Confirming this work is now underway, Mr Christopher Tugendhat, the Budget Commissioner, said yesterday that the Commission would soon need to have proposals ready for diversifying the Community's income.

Significantly, Mr Tugendhat is against recommending any increase in the current 1 per cent limit on member states' Value Added Tax payments to the EEC.

The move to increase the VAT limit is vigorously opposed by Britain and West Germany which are the only countries to pay very much more into the EEC Budget than they get back through Community policies.

Their complaints about shouldering an unfair financial burden, coupled with the fact that the 1 per cent ceiling is looming, is tending to put a straightjacket on the development of EEC policies requiring injections of funds.

Currently, the Community's money comes from the transfer to Brussels by member states of all customs duties and levies on agricultural imports plus up to 1 per cent of VAT payments.

Revenue ceiling

The proposed 1983 Budget of more than £12bn is only around £825m short of the revenue ceiling fixed by the 1 per cent limit.

"It would be irresponsible not to have other sources of revenue ready by the end of 1983," said Mr Tugendhat.

Before putting proposals to the Commission he and his staff are examining a combination of *measures including:*

● An energy import tax. The idea of an oil tax has had a lot of support within the commission over the past three years and the stabilisation of oil prices now makes it more politically attractive. Poorer member states, heavily dependent on oil imports would have to be specially protected but one of the advantages of an oil import tax is that it would fall less heavily than does the VAT burden on Britain and West Germany.

● Applying the VAT rate progressively so that richer member states pay in proportionally more to Brussels than those with less than the Community's average Gross Domestic Product. This would ensure that the Benelux countries and Denmark carry a larger share of financing EEC policies.

● Industrial levies to finance particular policies of benefit to industry. The model here would be the Coal and Steel Community where steel producers pay a small annual levy on turnover to generate income for a variety of industry schemes and a base for Community loans.

Several schemes

A number of financing schemes may be needed since no single one is likely to supply enough income to the EEC Budget to finance policies for a 12-member Community after the accession of Spain and Portugal.

As the most reluctant to add to EEC resources, Britain and Germany will want firm assurances that any extra funds will not be soaked up by the Common Agricultural Policy.

Mr Tugendhat believes that they could be satisfied if the Ten adopted a new regulation setting an annual maximum rate of growth for farm spending.

An important advantage of diversifying the Budget's income is that it could take some of the strain off the VAT system. Conceivably, the annual VAT "take" could move upwards or downwards with additional resources coming from the new Budget channels.

Although such changes would not dispose of the problem of Britain's excessively large payments to Brussels, they might make it less acute.

In any case, the launching of a negotiation on new Budget resources could take the pressure off the UK to seek a long-term settlement of its Budget problems this autumn.

London may be persuaded to accept another one-year curb on its Budget payments to be followed by a longer term arrangement which would take into account the impact of new arrangements for increasing the size of the EEC budget.

$ in New York

—	July 2	Previous
Spot	$1.7385-7350	$1.7405-7420
1 month	0.41-0.44 pm	0.39-0.43 pm
3 months	1.35-1.40 pm	1.33-1.36 pm
12 months	4.80-4.90 pm	4.72-4.85 pm

OVERSEAS NEWS

Guard killed in Basque bomb attack

By Tom Burns in Madrid

AN OFF-DUTY Civil Guard died yesterday and a second was severely injured when a booby trap nail bomb blew up their car near Pamplona.

The attack was in apparent reprisal for the wounding of four members of the Eta Basque separatist organisation who were allegedly accidently shot by a Civil Guardsman when a prison van transporting them suffered a road accident on Friday.

The bomb incident in the village of Burguete, close to the French frontier, came in the midst of a police alert in the Basque country following the kidnapping on Saturday of a prominent Bilbao businessmen by suspected Eta members.

Sr Rafael Abaitua, a company director, was taken by six hooded gunmen from his family summer residence of Zarauz after persuading his abductors to kidnap him in place of his 75-year-old father, Sr Javier Abaitua.

Sr Javier Abaitua, a former trustee of the Bilbao Bourse and a leading broker both at Madrid and the Bilbao stock exchanges, was the original victim

The Burguete bombing brought the number who have died in political violence in the Basque country this year to 23.

In San Sebastian protesters erected barricades and clashed with police on Saturday night in a demonstration following the funeral of a local Eta man who was killed in crossfire during the assassination last Wednesday of a Bilbao police chief.

Special permits for Gibraltar

By Our Madrid Correspondent

THE Civil Governor of Cadiz Province, who has jurisdiction over the Spanish side of the Gibraltar frontier, said yesterday Spain would be more flexible in granting special permits to cross the border with the British colony which was to have opened last month.

Governor Jose Gonzalez Palacios said he would extend permits for humanitarian reasons in cases of grave illnesses and funerals.

The promised permits did not appear to indicate any new move on the part of Madrid over the border following its decision last month not to lift the 13-year-old restrictions on the land frontier.

Gulf oil producers seek African price increase

BY RAY DAFTER, ENERGY EDITOR

SAUDI ARABIA and other Gulf oil producers are expected to press African exporters to raise the price of their high-quality crudes by at least $1.50 a barrel when ministers of the Organisation of Petroleum Exporting Countries (Opec) meet in Vienna later this week.

The Saudis, the world's leading oil exporters, want Libya, Algeria and Nigeria to increase their prices from the present level of about $35.50 a barrel to at least $37, according to the Middle East Economic Survey.

Gulf producers are thought to be concerned that the Africans are not charging a high enough premium above the Opec reference level—$34 a barrel—to reflect the quality of crudes and their relative nearness to the main importing markets.

According to the survey, the Saudis argue that market conditions would support a premium of at least $3 a barrel over the reference price.

Nigeria and Libya are expected to resist the pricing pressure when the ministers meet for their emergency talks on Friday.

Nigeria, in particular, is anxious to boost exports to ease its serious financial plight. It will also emphasise that one of its main competitors among the exporters of high quality oil—the UK—is charging even less.

The Opec price differential was reduced to its present level at an emergency Ministerial meeting last March. That decision helped African exporters to increase their sales, partly at the expense of Gulf producers.

The survey reported yesterday that officials in Gulf countries estimated total Opec output had risen to about 18.5m barrels a day, about 1m b/d above the present ceiling agreed by all Opec members except Iran.

The Gulf officials are said to be angry that some members, such as Iran, are discounting prices to push up sales.

Saudi pressure for an African price rise will be viewed by some industry analysts as a sign that the oil market may be slowly returning to a more balanced position.

It was Saudi Arabia that stepped in just over three months ago to support Nigeria against pressures for price cuts. The Saudis and other producers threatened to cancel contracts if importers failed to buy adequate amounts of oil from Nigeria.

Link between Belgian and Luxembourg francs scrutinised

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

Mr Werner . . . staked political credibility on overhaul of currency link

LUXEMBOURG and Belgium resume discussions today on the future shape of the economic union that has linked their two currencies over the past 60 years. The talks come amid fresh denials of an imminent end to the parity between the Luxembourg and Belgian francs.

Speculation that this link could be severed has been mounting in Luxembourg's financial markets since last month's devaluation of the French franc which also involved a revaluation of the D-mark against the Belgian franc in the European Monetary System.

Exchange risk

Belgian residents have been flocking to buy Luxembourg franc denominated bonds, while Luxembourg banks, who are short of opportunities to lend in their own currency, have shown great interest in a rare LuxFr 2bn Eurocredit for the French small business finance concern Caisse d'Equipement des Petites et Moyennes Entreprises.

Banks in the Grand Duchy have an excess of Luxembourg francs which they are forced to lend in Belgium. This involves no exchange risk as long as the parity between the two currencies remains. It could involve losses, however, in the event of an appreciation of the Luxembourg franc against the Belgian unit.

This is one of the problems which will be covered in today's talks, according to Mr Ernest Muehlen, State Secretary at the Luxembourg Finance Ministry.

"There is absolutely no question of a break with Belgium at this stage," said Mr Muehlen, "but we do have the theoretical right to alter the parity of our currency and we want to establish how this right could be made to work in practice."

This involves settling two main problems—quantifying Luxembourg's share of Belgium's foreign exchange reserves and coping with the exchange losses that would be incurred by Luxembourg banks on their lending to Belgium.

"We want to see what would happen on these points if we were to decide to sever the link," Mr Muehlen said. "It doesn't mean that we want a break, but in the case of adjustment (in the EMS) we reserve the right to take a decision in our own interests."

Economic ties

Bankers in Luxembourg point out that the Grand Duchy has close economic ties with West Germany as well as Belgium. Its economy is more prosperous than that of Belgium and it makes a positive contribution to the Belgo-Luxembourg balance of payments.

They also fear the Luxembourg franc would be laid wide open to speculative currency flows following any break in the parity link with the Belgian currency.

Giles Merritt adds from Brussels: Luxembourg's determination to win what will be at the very least a thorough review of its monetary partnership with Belgium owes as much to politics as it does to economics.

For it was the Belgian Government's unilateral decision last February to devalue its franc by 8.5 per cent without reference to the Luxembourg authorities that triggered the Grand Duchy's discontent.

Belgian experts are also sceptical that an independent Luxembourg franc could be viable. But in political circles it is recognised that the Grand Duchy can no longer be treated as a silent partner in the two countries' monetary union.

The coalition Government led by Luxembourg's Mr Pierre Werner, who will lead the Grand Duchy's delegation to today's Brussels talks, has in recent months staked much of its political credibility on a promise to overhaul the currency link.

There are nevertheless doubts in Brussels banking circles over the feasibility of meeting some of Luxembourg's demands. The independent valuation of the Grand Duchy's assets, traditionally held by the Banque Nationale de Belgique, is a particularly complex accounting exercise.

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Mugabe charge presents new threat to Nkomo

BY TONY HAWKINS IN HARARE

THE POLITICAL future of Mr Joshua Nkomo and his minority Zapu party is in doubt this week following Prime Minister Robert Mugabe's weekend statement linking Mr Nkomo with last month's abortive attack on the Prime Minister's residence.

Speaking at a weekend news conference marking the end of a 48-hour visit of Zimbabwe by Mr Francisco Pinto Balsamao, the Portuguese Premier, Mr Mugabe said it was clear that Zapu had been responsible for the attack.

"Zapu was responsible, therefore the inference can be drawn that Nkomo was responsible," the Prime Minister said.

Mr Nkomo, who was to have addressed a "unity and reconciliation" rally in Harare yesterday, has again denied that he or his party have been plotting against the Government.

The 3,000 people attending the rally were told that Mr Nkomo had flu and had been confined to bed. But a party official at the Zapu leader's Bulawayo home denied Mr Nkomo was ill and said he was at a meeting in the city. He gave no reason for the failure to address the Harare rally.

The Prime Minister, asked whether Mr Nkomo faced arrest, replied: "Whether Nkomo had a direct hand in the attack will be established by the police."

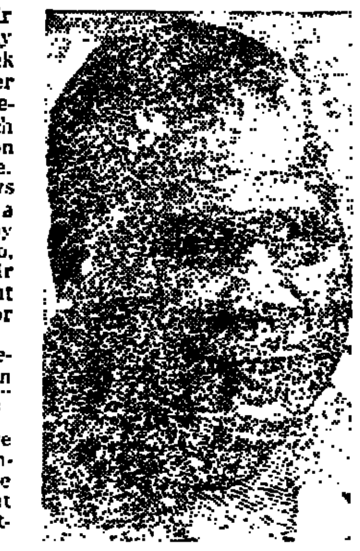
The Zapu leader has been under threat of arrest ever since his dismissal from the coalition Cabinet in Ferbuary when secret arms caches were discovered in parts of Matabeleland, Mr Nkomo's regional political base.

Three very senior members of Zapu—its organising secretary and its two top military figures—have been detained, without trial, on suspicion of involvement in what the rival Zanu-PF party says was a military plot to oust Mr Mugabe.

The Prime Minister has said Mr Nkomo could face prosecution depending on the outcome of police inquiries into the arms cache affair.

This latest threat against Mr Nkomo follows the June 24 attack by gunmen on the homes of Mr Mugabe and his Minister of National Supplies, Mr Enos Nkala.

The attacks were unsuccessful but one of the gunmen, subsequently identified as a sergeant in the national army and a former member of Mr Nkomo's Zipra army, was killed.



Nkomom . . . failed to address rally

Police say eight other former Zipra soldiers have been arrested along with an unspecified number of civilians.

Mr Nkomo's speech to yesterday's rally was read for him by Mr Joseph Msika, the secretary-general of Zapu. He strongly denied any involvement in the attacks.

Mr Nkomo has been under increasing criticism because of the outbreak of violence in Matabeleland in western Zimbabwe in which more than 30 people have died. The government has blamed former Zipra "dissidents" for the incidents.

Although Mr Nkomo has condemned the violence and the attacks on Mr Mugabe, it seems clear that the ruling Zanu-PF party believes the present situation provides an opportunity to end the Zapu leader's political career.

Mr Mugabe is committed to the "constitutional" establishment of a one-party state in Zimbabwe. White opposition has crumbled with the split in Mr Ian Smith's Republican Front.

Mr Smith's recent illness suggests that the 63-year-old former prime minister will himself soon leave politics

Warsaw to increase lowest wages

By Christopher Bobinski in Warsaw

THE POLISH Government plans to raise welfare benefits and the wages of the lowest paid workers. It also plans to give pensioners a one-off payment in the coming months to compensate for this year's rise in the cost of living.

No figures have been released and the move coincides with today's increases in the prices of coffee and tea. The price of certain brands of vodka is to be increased by 40 per cent and it will now be sold outside the rationing system.

The additional payments are designed to cushion the effects of an estimated 40 per cent drop in real wages since drastic price increases last February and head off social discontent.

In an implicit criticism of the move the country's Banking Council, an institution set up last year to oversee financial policy, has warned that any increase in wages unaccompanied by a growth in supplies of consumer goods "will merely strengthen inflationary processes and disorganise the market."

Sihanouk plans Kampuchea HQ

By Our Foreign Staff

PRINCE Norodom Sihanouk, president of the newly-formed Coalition Government of Democratic Kampuchea, arrived in Thailand yesterday on the last stop of his tour of the five members of the Association of Southeast Asian Nations.

He said he plans to cross the border into Kampuchea this week to set up secret headquarters from which to wage war against the Vietnamese.

Dominican leader dies in shooting 'accident'

DOMINICAN President Antonio Guzman died yesterday after a shooting incident described by the country's Defence Minister as accidental, Reuter reports

Mr Guzman, who did not run for re-election this year, met his son-in-law and an aide at his office late on Saturday. The President left the office, walked into an adjacent toilet and a single shot was heard

Papandreou boosts economic team

BY VICTOR WALKER IN ATHENS

A NEW 50-member Socialist Cabinet will be sworn in today in Greece following a sweeping reshuffle which Premier Andreas Papandreou carried out on Saturday aimed at strengthening the Government's economic team.

The reshuffle, eight-and-a-half months after Dr Papandreou's Panhellenic Socialist Movement (Pasok) came to power, brings into the Cabinet for the first time four men who until Saturday were at the head of Greece's largest state-controlled banks.

The governor of the Bank of Greece, Mr Gerassimos Arsenis, takes over the newly-created Ministry of National Economy, which replaces the Ministry of Co-ordination and now incorporates the sectors of industry and foreign trade.

Mr Arsenis will be assisted by an alternate Minister and three undersecretaries, one of them Mr Constantine Vaitsos, until Saturday president of the Commercial Bank of Greece.

The governor of the main investment bank, the Hellenic Industrial Development Bank, Mr Dimitrious Koulourianos, becomes Finance Minister in place of Mr Ammenual Drettakis, who resigned just over a week ago in a dispute over a new property tax.

The fourth change affecting the banks is the transfer from governor of the National Bank of Greece to Justice Minister of Mr George Alexander Manghakis, a leading Greek lawyer.

The only replacement so far announced in the banks is the appointment of the secretary general of the National Tourist Organisation, Mr Stelios Panagopoulos, as governor of the National Bank of Greece, the country's largest commercial bank.

Mr Arsenis, Mr Koulourianos and Mr Vaitsos all had wide experience abroad, mainly with the United Nations, the OECD and the World Bank, before their appointment last November to banking positions.

The reshuffle brings in 17 newcomers to a Cabinet increased in size from 41 in the previous setup. The new Cabinet consists of 23 Ministers and 26 under-secretaries, with two positions of under-secretaries still to be filled. Six Ministers and eight under-secretaries are not Members of Parliament.

The nine members dropped from the Cabinet include the former Co-ordination Minister, Mr Apostolos Lazaris, architect of the Socialist Government's economic policy both before and since the October elections.

The other two Ministers not given posts in the new Cabinet, apart from Mr Drettakis, are former Justice Minister, Mr Stathis Alexandris and former Industry and Energy Minister, Mr Anastasios Peponis. Among the five under secretaries dropped is Mr George Petsos, former deputy to Dr Papandreou at the Ministry of National Defence.

Dr Papandreou retains the National Defence Ministry, assisted by two under secretaries.

Twenty-two members of the new Cabinet also retained their posts, including the Foreign Minister, Mr Yannis Haralambopoulos, and his three under secretaries, and the Culture and Sciences Minister, Mrs Melina Mercouri.

The former Industry and Energy Ministry is turned into the Ministry of Energy and Natural Resources, while the Social Services Ministry is split into separate Ministries of Health and Welfare and of Social Insurance. A new Ministry created is that of research and technology.

Dr Papandreou has also set up a new undersecretariat for Greeks abroad, to be headed by Mr Asimakis Fotilas, the former Foreign Undersecretary dismissed last January for failing to consult the Government before countersigning an EEC communique concerning Poland.

According to the Government spokesman, Mr Dimitrios Maroudas, who retains his post as undersecretary for Press and Information, the reshuffle should not be seen as sigralling a change in economic policy.

Argentine army chief orders inquiry into Falklands war

BY JIMMY BURNS IN BUENOS AIRES

GENERAL Cristino Nicolaides, who took over as Argentina's army chief following the removal of General Leopoldo Galtieri in a bloodless palace coup last month, has ordered a major inquiry into the military conduct of the Falklands war.

Similar initiatives are underway within the navy and the air force following instructions given by the two surviving service chiefs Admiral Jorge Anaya and Brigadier General Emilio Lami Dozo.

In a weekend speech, Gen. Nicolaides said: "For the sake of historic truth I am determined to establish heroic acts, and the faults and errors committeed during the war."

During a review of troops in southern Argentina, Gen. Nicolaides also pledged the army's full backing for President Reynaldo Bignone's efforts to return Argentina to democracy by 1984 and to press the country's claims over the Falklands.

Gen. Nicolaides did not mention further military action but stressed that the return of the islands to Argentine hands would be a major priority of foreign policy.

The inquiries ordered by the service chiefs are aimed at keeping what has recently become a subject for public debate within the strict confines of military discipline.

Full details of the army inquiry have not been revealed, however it is likely to focus on the actual military campaign rather than the events leading up to the April 2 invasion.

Initial investigations are already being carried out by a branch of army intelligence based in Campo de Mayo, one of the main barracks in the suburbs of Buenos Aires.

Witnesses will eventually include soldiers of all ranks, ranging from conscripts who fought in the Falklands to high-ranking officers who conducted operations from the mainland.

Formal cross-examination of senior officers including Gen. Mario Benjamin Menendez, the former military governor of the Falklands, is expected to take place before a "tribunal of honour" led by generals not directly involved in the war.

The tribunal will give the accused an opportunity to clear their names. However, it will have to decide whether to refer a senior officer to a Council of War for a formal court martial.

The inquiry is expected to enter a formal stage when Gen. Menendez and some 500 officers, currently detained by the British in the Falklands, are returned to Argentina.

Public criticism of the Falklands campaign has been stirred by eye-witness accounts from returning conscripts.

They have complained about pjoor equipment, a lack of adequate fod supplies, and in some cases, cowardly and often corrupt leadership.

Military sensitivity to such allegations was demonstrated over the weekend when army Chiefs of Staff called a press conference to deny the allegations. Journalists were shown exhibits of clothing and rifles used during the campaign.

U.S. envoy in Moscow TV peace plan

MOSCOW—The U.S. Ambassador to Moscow last night assured millions of Soviet television viewers that the U.S. sought a frank and open dialogue with the Soviet Union in the search for world peace.

In a July 4 U.S. Independence Day address, broadcast at peak viewing time on Moscow TV, Mr Arthur Hartman said the U.S. would like to improve its relations with the Soviet Union but added: "We must say frankly that this can not depend only on us."

Mr Hartman's four-minute address in the main Soviet TV news programme followed a coolly-worded Independence Day message from President Leonid Brezhnev to President Reagan.

Mr Brezhnev, who left Moscow yesterday for his traditional summer holiday in the Crimea, simply asked Mr Reagan to extend to the American people "congratulations and wishes of peace" on their national holiday.

Reuter

Botha to meet Zulu leader over land row

By Bernard Simon in Johannesburg

MR P. W. BOTHA, the South African Prime Minister, has proposed a meeting with Chief Gatsha Buthelezi, the Zulu leader, to discuss Pretoria's controversial plan to cede part of the Zulu tribal "homeland" to Swaziland. Chief Buthelezi told a political meeting over the weekend.

He did not say when the meeting with Mr Botha would take place.

There is no indication yet that the South African Government is willing to back down on the land deal which involves the transfer of about 3,000 square miles of South African territory to Swaziland. The land is the Ingwavuma district in northern Natal, part of the Quazulu "homeland," and the whole of the Kangwane Bantustan in the eastern Transvaal.

The proposals have sparked off angry protests over a broad cross-section of South African opinion, especially the country's 6m Zulus. Chief Buthelezi said that if violence erupted in the Ingwavuma area he would do nothing to stop it.

Businessmen in Natal have warned that growing antagonism between the South African Government and Zulu leaders over the land issue may harm labour relations. A spokesman for the Natal Chamber of Industries said the dispute could "precipitate an unhappy and costly element of destabilisation in the workforce."

The mining industry has also voiced its concern over the future of mineral rights held in the areas to be ceded. All mineral rights in Swaziland are vested in the king.

Speculation that the Swazi Government will establish closer political relations with Pretoria in return for the land has been heightened by a Sunday newspaper report that Mr Piet Koornhof, the South African Minister for Black Affairs, offered the deputy Prime Ministership of Swaziland to Kangwane's chief minister Mr Enos Mabuza.

According to Mr Mabuza, Dr Koornhom also offered him the post of South Africa's first ambassador to Swaziland, Mr Mabuza said he turned down both proposals.

WORLD TRADE NEWS

Paul Cheeseright reviews the new export credit rates for OECD nations

U.S. overcomes EEC resistance

BRITISH BANKS and major users of fixed-term export finance will this week be told by the Export Credits Guarantee Department of new rates and conditions for the funding of project and capital goods business.

This follows the winding down of the protracted negotiations in the international export credits Consensus or, more formally, the Arrangement on Guidelines for Officially Supported Export Credit — the 22-nation agreement under the aegis of the Organisation for Economic Co-operation and Development.

Although minor points remain to be sorted out, the main lines of lending conditions to last from this week until May, 1983, have been established. It now seems unlikely that any single nation would wish to torpedo the whole arrangement with further objections. But nothing is absolutely certain.

The new Consensus shows substantial changes on its predecessor, which ran formally from last November until the middle of last May, but which was extended largely to permit negotiation on EEC qualifications to a plan sponsored by Mr Axel Wallen, the Swedish chairman of the OECD export credit group.

EXPORT CREDITS CONSENSUS
New Interest Rates
(rates prevailing Nov 81-May 82 in brackets)

Borrowing country	Criteria	Length of loan (years) 2-5	Over 5	Maximum credit term (years)	Minimum cash payment (%)
Category 1 Relatively rich	GNP per capita $4,000 (1979)	12.15 (11)	12.4 (11.25)	5*	15
Category 2 Middle income	Not in categories 1 or 3	10.85 (10.5)	11.35 (11)	8.5	15
Category 3 Relatively poor	GNP per capita under $624 (1978)	10 (10)	10 (10)	10	15

* 8.5 years exceptionally

Interest rates: Largely on U.S. insistence and in the face of a stubborn EEC resistance, rates for Category 1 and Category 2 borrowers have been increased by between 0.35 and 1.15 percentage points.

On the face of it, this is a minor increase, although it brings Consensus rates somewhat more closely into line with market rates for long-term funds on most of the major western markets, while leaving borrowing costs for the poorest countries untouched.

But the real effect is more marked because of changes made among the categories of borrowers.

Reclassification: The Consensus nations have adopted new objective criteria to use in giving borrowing countries a category rating. The impact is significant in both political and economic terms.

First, countries like the Soviet Union have been moved from Category 2 to Category 1. This means that the Soviet Union, instead of having to pay 10.5-11 per cent on the basis of the Consensus rates obtaining for the past six months, will now have to pay at a rate 1.4-1.65 percentage points more over a shorter credit period. Its new rate is some 4.5 percentage points higher than it has been paying on credits for the Siberia-West Europe gas pipeline equipment.

This goes some way towards meeting U.S. policy of forcing European lenders to the Soviet Union to abandon excessive concessional financing.

Second, the countries which receive a large part of the fixed-term export finance under Consensus arrangements have been lifted from Category 3 to Category 2. This includes nations like Algeria, Brazil, South Korea, Malaysia, Mexico, Nigeria and Taiwan — mainly the newly industrialising countries.

Japan: As a low-interest country, Japan did not want to grant export credits at the Consensus minimum rates, but at its long-term prime rate of 8.4 per cent. Hitherto it has been lending at a minimum 9.25 per cent.

The new arrangement provides for a Japanese export credit—usually a mix of official and private lending—to be no less than 0.3 of a percentage point above the long-term prime rate. Japan is thus placing a surcharge on a whole credit package.

Mixed credits: These are a mixture of export credits at Consensus rates and aid funds carrying very low or no interest, thus lowering net charges to the borrower. Previously there was a system of notification for their use, but it has been agreed that they will not be used where the grant element is less than 20 per cent of the total financial package.

Prior commitments: The effect of interest rate changes in previous Consensus agreements has often been reduced by the making of commitments on credit terms in advance of rate increases. This practice is being brought more closely under control by agreement that prior commitments can only last for six months, after which the rates obtaining at the time of expiry would apply.

Discipline: The Consensus is a gentleman's agreement, not a binding treaty. When credits have been granted in the past which breach the minimum interest rates or extend the maturity period beyond the maximum, competitors have been informed so they can match the offer. Under the new system it has been agreed that there will be no breaches of this type.

Panama Canal users face 9.5% increase in tolls

BY DAVID GARDNER IN PANAMA CITY

USERS of the Panama Canal face higher tolls from October 1, the beginning of the waterway's fiscal year.

The increase, likely to be 9.8 per cent, is lower than the 25-30 per cent rises mooted last year.

Panama Canal Commission officials say the rise is needed to offset the loss in revenue—estimated at $55m-60m a year—when the new Trans-Panamanian oil pipeline comes on stream in September. The last toll increase, of 29.3 per cent, came in October 1979, with the signing of the Panama Canal Treaties and went largely towards covering increased payments to Panama for the use of the waterway. The new rise will only be the fourth since the canal opened in 1914.

Laden vessels will have to pay $1.83 per displaced ton against the previous toll of $1.67, while ships in ballast will have to pay $1.46, against the previous $1.33. This is expected to yield extra revenue of $2.25m a month, according to Sr Fernando Manfredo, the commission's deputy administrator.

The commission expect to lose $4.8m a month when the oil traffic from Alaska's north slope starts using the new pipeline at its full capacity of 600,000 barrels a day. It hopes to make up the difference through economies and through the extra capacity the loss of oil tanker traffic will give the canal.

Canal revenues have risen some 8 per cent in the October 1981-May 1982 period to $215.3m against $200.6m for the same eight months of the previous fiscal year. The Canal commission, which as a U.S. appropriated fund agency is required to break even, made a small operating loss in fiscal 1981 on turnover of $303m.

UK group in $73m Indonesia port deal

By Richard Cowper in Jakarta

BALFOUR BEATTY of the UK has won another major construction contract in Indonesia, underlining its role as one of the successful British engineering and construction companies operating in south-east Asia's biggest nation.

An Anglo-Canadian joint venture which combines Balfour Beatty, and Dominion Bridge of Toronto has been awarded a $73m contract to build a coal port for the Indonesian Government in South Sumatra. The port is one segment of a $2bn scheme to boost electricity output on Java by using coal from the nearby island of Sumatra.

It is the third Indonesian Government contract that Balfour Beatty has won this year. In May the company won a contract to carry out civil engineering works worth £80m on a £200m hydroelectric project. In February the company was awarded a letter of intent with the French construction company of C.G.E. Alsthom for the erection of a high voltage transmission line. On Java the contract was worth around £33m to the Anglo-French joint venture.

Construction of the port, which will initially be designed to handle 2.5m tonnes a year, is due to be completed by September, 1984, and should come into operation in early 1985. Financing for the project will be roughly 70 per cent in the form of export credits from the UK and Canada, and 30 per cent from the Indonesian Government. Canada will supply C$47.4m and Britain £8.6m.

SHIPPING REPORT

Rates for dry cargo stay low

By Andrew Fisher, Shipping Correspondent

THE ROCK-BOTTOM rates in world dry cargo markets show no signs of rising to profitable levels for some time, according to leading shipbroking companies.

Fearnleys, based in Oslo, said in its latest market review that the further collapse of the market in June would force owners to lay up more ships.

"The prospects for any increase in demand are as remote as ever," it noted. Cuts in steel production for the third quarter in Japan and Europe would only worsen the situation.

"There are no signals from the U.S. that interest rates will fall and we fear that the latent investment potential in Europe may thus be still further deferred."

Last month saw a sharp drop in the rate for 70,000 tons of grain from the U.S. Gulf to continental Europe from $10 to $6.50 a ton. Coal rates from Hampton Roads on the U.S. east coast to Japan dropped from $19 to $14.50.

While rates remain depressed, still more bulk carriers ordered when prospects looked rosier are streaming onto the market. Around 7m dwt of bulk carriers were delivered in the first half.

S. Africa awards coal allocations to foreign units

BY BERNARD SIMON IN JOHANNESBURG

COAL MINING subsidiaries of four European oil companies are among at least 30 groups which have been awarded quotas for the fourth phase of South Africa's coal export programme.

The Government notified the companies last week of their allocations, which will raise South African coal exports from around 48m tons in the mid-1980s to 73m tons in the early 1990s. The eventual target of phase four is 80m tons, making South Africa the world's third largest coal exporter after the U.S. and Australia.

The oil companies receiving quotas are BP, Shell and Total, a subsidiary of Compagnie Francaise des Petroles of France. Each will be allowed to export an extra 0.5m tons a year. BP and Shell already have annual export quotas of 5.5m tons, and Total has an allocation of 2.5m tons a year.

For the first time a quota has been given to Agip Coal, a subsidiary of ENI, the Italian state energy utility. At 2m tons, it is among the largest of the phase four allocations.

Agip Coal is a partner in an open cast mine in the eastern Transvaal and is understood to own substantial coal reserves in the area.

Nonetheless, the large allocation to ENI is bound to raise speculation that the group is involved in supplying oil to South Africa. The Government has said that the size of export allocations depends heavily on a company's contribution to South Africa's energy needs.

An official for Agip Coal's local subsidiary said at the weekend that the quota appeared to be based on the contribution which its mine will make to regional development and the assurance of a secure export market in Italy.

The largest phase four quotas have gone to the coal mining subsidiaries of South Africa's two biggest mining houses, Anglo American Corporation and General Mining Union Corporation. Gencor companies have been awarded an additional 4.5m tons a year, and Anglo American 4m tons.

Transvaal Consolidated Lands, part of the Barlow Rand group has an allocation of 2.5m tons.

China seeks investment to develop energy resources

BY COLINA MacDOUGALL

CHINA is looking to Europe for major technology and investment for a $6bn, 15-year development scheme for its coal and transport industries, Mr Li Lu, General Manager of the China Southwest Energy Resources United Development Corporation, said on Friday.

Chinese officials say the amount of foreign investment involved is likely to be large, though not yet decided.

A mission from the energy corporation, led by Mr Kong Xun, board chairman, outlined plans to British businessmen at the start of a two week visit.

The mission's purpose is to discuss energy development in the southwest and coal development throughout China. The Chinese stressed that plans were still at a preliminary stage, but possible means of financing will be discussed with 6 major British banks during the visit.

Mr Kong said "We can assure everybody here that problems affecting China's imports in the first stage of our economic readjustment are now ended."

The Chinese mission has already visited Italy, West Germany, Spain, France and Belgium. The Chinese were optimistic about prospects of financial and technical co-operation with these countries on the southwest China development project.

A Hong Kong company, the United Development Corporation, has played a big part in smoothing the way to agreement over the past two years by setting up discussions with companies in Europe.

The southwest development plan covers four provinces and includes coal mining, rail construction, port expansion (at Zhanjiang, the designated coal port) and the establishment of power stations.

Current output of 7m tonnes of good quality coal is to be boosted to 15m tonnes under the plan, Mr Li Lu, deputy leader of the mission, said. Zhanjiang's capacity will be raised to handle ships of 150,000 tonnes to carry coal to western Europe.

During its visit, the mission also wants to discuss nationwide coal exploitation. This includes a new 4m tonne annual capacity mine in Hebei province, a 3m tonne mine in Shandong province and a 4m tonne mine in Shanxi.

World Economic Indicators

RETAIL PRICES (1975=100)

					% change over previous year
	May '82	Apr '82	Mar '82	May '81	
UK	238.9	237.2	232.6	218.2	9.5
	Apr '82	Mar '82	Feb '82	Apr '81	
W Germany	134.5	133.9	133.7	128.0	5.0
France	205.6	203.3	201.0	180.6	13.8
Italy	286.4	283.8	281.5	247.0	16.0
Netherlands	151.8	151.1	149.7	142.6	6.5
Belgium	156.0	154.1	153.9	143.9	8.5
U.S.	175.6	175.0	175.8	165.5	6.1
	Mar '82	Feb '82	Jan '82	Mar 81	
Japan	146.3	146.2	146.2	142.2	2.9

Source (except UK): Eurostat

TACTICS FOR EXPORT GOALS.

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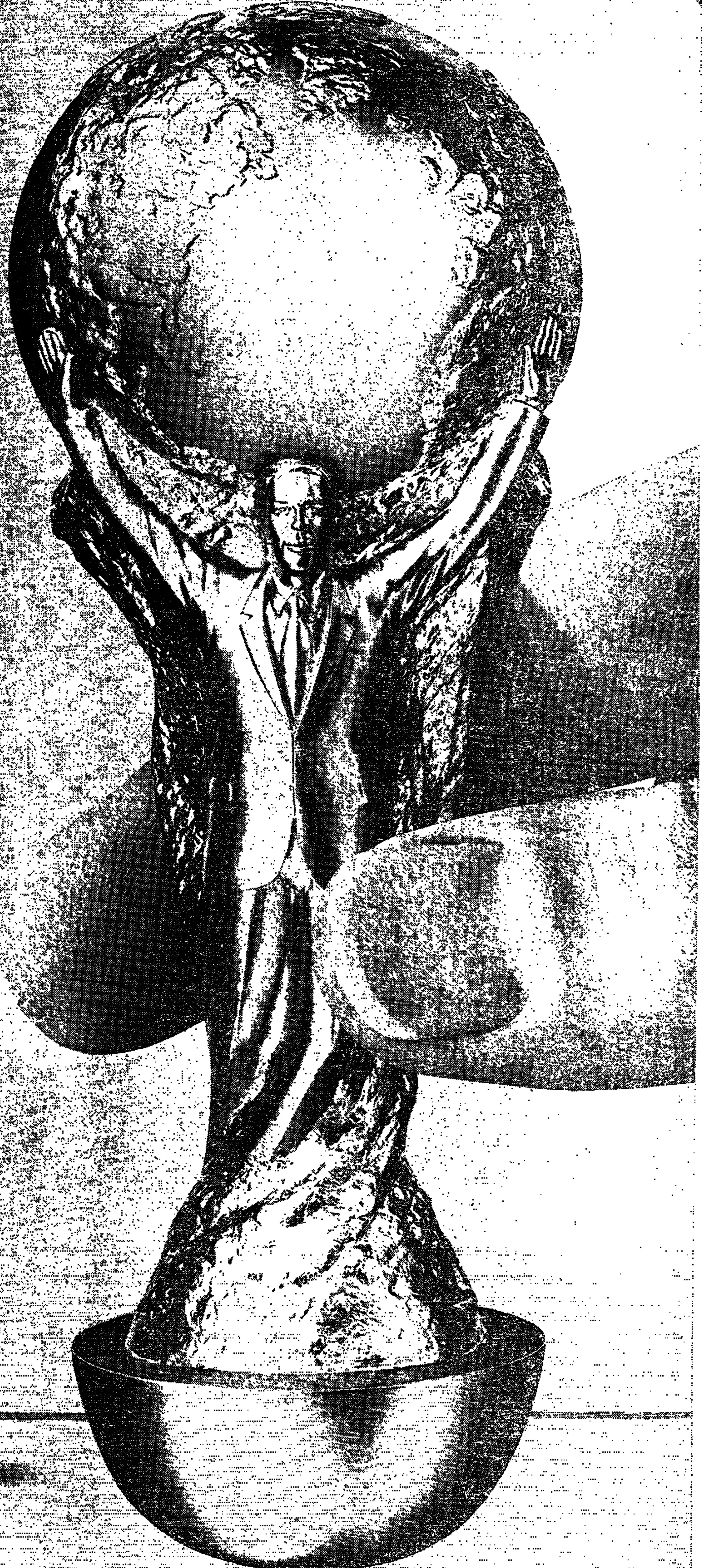


BARCLAYS International

PEOPLE WHERE IT COUNTS.

Austin Rover seeks cut-price parts

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

BL'S SUBSIDIARY Austin Rover will this autumn ask component suppliers in Britain to cut their prices. If the suppliers cannot comply, the company will buy from overseas.

The new squeeze on suppliers arises directly from the car marketing battle in the UK. The most severely competitive conditions for many years have forced down car prices and manufacturers have had to spend millions of pounds to support their dealers.

Austin Rover is determined not to be diverted from its financial targets which involve breaking even at trading profit level next year and pre-tax level in 1984.

The company claims it has gone as far as possible to cut its overhead costs. The workforce will have been reduced from 104,000 at the end of 1977 to about 47,500 by mid-July. Recent closures have included the Speke No. 1 plant in March this year and the Rover saloon plant at Solihull in April. The Coventry Engines factory shut down on Friday.

Productivity in BL now matches the best in continental car plants, according to Mr Harold Musgrove, chairman.

All Austin Rover has left to look at when seeking further cuts are the components which make up 70 per cent of the cost of its cars.

Earlier this year Austin Rover said it could buy from overseas 70 per cent of the materials and components it needs at an average of 20 per cent below British prices.

In other words, only 30 per cent of its UK suppliers were competitive with their overseas rivals.

Austin Rover has been willing to accept this differential because it does not want to destroy the UK components sector for short-term gain.

But the British public no longer seems willing to accept the cost penalties involved in buying UK-built vehicles, mainly because of publicity about low car prices on the Continent.

How tough Austin Rover has to be in the autumn will depend considerably on new car sales in August and September—the peak months for registrations.

If the total market fails to recover, or if BL's market share remains below expectations, the company will be faced with some tough decisions.

Austin Rover estimates new car sales will be below 1.45m, compared with the 1.52m forecast in January, and its market share is under 18 per cent against the 21 per cent aimed for in 1982.

BL claims that 95 per cent of its materials and components are bought in Britain but it has no formal "buy British" policy.

Mr Musgrove recently sent a letter to company car fleet buyers urging them to buy British "where it makes sense commercially."

He could argue that any switch by Austin Rover to overseas suppliers would take place because buying in Britain no longer made commercial sense.

Falklands inquiry terms likely this week

BY PETER RIDDELL, POLITICAL EDITOR

THE FULL terms of reference, and the membership, of the inquiry into the origins of the Falklands crisis should be known by the end of the week, after further consultations between Mrs Margaret Thatcher and other political leaders in the next couple of days.

The Prime Minister will see Mr Michael Foot, the Labour Party leader, today to seek all-party agreement on whether the focus of the inquiry should be primarily on the events immediately before the Argentinian invasion of the islands in April, or whether it should look back to the mid-1960s. Also, there will be discussion on whether the inquiry should be established by parliament or by the Government alone, and on its membership.

Officials in Whitehall believe that the areas of difference are being trimmed but the controversy has been inflamed by the intervention of Mr Edward Heath and Mr James Callaghan, former Prime Ministers. They have questioned Mrs Thatcher's desire that the inquiry have access to the papers of previous administrations, and should look beyond events immediately before the invasion.

The involvement of the two former Prime Ministers could slightly delay the announcement of the inquiry.

Over the weekend, Sir Harold Wilson, another former Prime Minister, promised support for the inquiry. He said it was "the duty of anyone with any knowledge to contribute to it. As a matter of fact, there was very little activity on that front during my term of office, but I will look through all the papers and make them available."

Dr David Owen of the Social Democratic Party said at the weekend that Mrs Thatcher should have asked the views of former Prime Ministers of right, not just as a matter of courtesy. He also said the authority of parliament should be obtained for such an inquiry.

Dr Owen, who was Foreign Secretary in the Labour government which set up the Bingham inquiry into infringement of sanctions against Rhodesia, said he had been advised that that inquiry could not be shown Cabinet papers of earlier administrations as of right.

Merchant fleet calls for built-in defences

BY ANDREW FISHER, SHIPPING CORRESPONDENT

THE General Council of British Shipping (GCBS), representing UK companies, will press the Government in the wake of the Falklands crisis to promote construction of merchant ships with built-in defence features.

The Government has promised to review the position of the merchant fleet in a defence context after calling up 50 vessels from owners to accompany the task force to the Falklands.

The GCBS will make clear during this review its concern about the continued decline of the British flag fleet and express its disappointment with the latest Defence White Paper.

None of the points which it has made to the Government in the past 18 months—such as the merchant's fleet's fall and its likely future defence role—were mentioned in the White Paper.

One feature the GCBS would like to see installed on certain merchant ships is anti-missile equipment. Cunard's Atlantic Conveyor container ship might not have been hit if she had been installed with this.

More tankers should be equipped with facilities for refuelling at sea (RAS). Tankers which were RAS-equipped proved essential to the task force and were needed from the start of the crisis.

Ships with these and other features could be built mainly with the industry's own money, but with some help from the Government, the GCBS reckons. It will also renew its pleas, so far ignored, for allowances to stimulate UK ship-owners to invest in new cargo vessels and thus prevent a further decline of the fleet, down since 1975 by two-fifths to 29m deadweight tons.

Other defence features which new ships could possess include strengthened decks for Harriers and helicopters, and lifts enabling aircraft to be parked below the main deck. Container ships would be developed also to allow aircraft to take off from special decks.

Chemical Bank expands in Europe

By Dominic Lawson

CHEMICAL BANK of the U.S. has announced measures to expand its European activities.

Its 12 European branches and offices will report to a new European headquarters in London rather than direct to New York as previously. Mr William Harrison, senior vice-president and previously general manager of the London branch, will head this European division.

The London operations division is to be transferred to Cardiff, where business is due to start later this year.

In West Germany a newly-incorporated bank, Chemical Bank AG, has taken over most of the corporate and inter-bank business of the bank's German branch, reinforcing its position in the banking wholesale market.

In Spain, Chemical Bank is to open a branch in Barcelona. Its Madrid branch opened two years ago. The two branches will be directly connected for computer processing which, says Chemical Bank, may well be the prototype for a number of similar branches in Europe and elsewhere.

The bank plans to open an office of its leasing subsidiary, Chemco, in Madrid. It will be the first entirely foreign-owned leasing company in Spain.

National parks 'disasters'

LARGE AREAS of Britain's national parks "should cause us great shame as monuments to disastrously bad land use," leading conservationist Mr John Andrews, national conservation officer of the Royal Society for the Protection of Birds, claims in Footloose, the outdoors activity magazine.

He appealed for an end to the 50-year war between conservationists and forestry interests.

"It seems to be high time for both sides to take stock of the situation and consider what advantages might come from a more constructive relationship," he said.

Legislation on way to split GLC and LT

BY HAZEL DUFFY, TRANSPORT CORRESPONDENT

THE Government is expected to introduce in the next parliamentary session a short Bill to take London Transport (LT) out of the control of the Greater London Council (GLC).

There has been no formal indication by Mr David Howell, the Transport Secretary, to the GLC of this intention, although several of his recent statements on transport have shown that he is thinking in that way. The official position is that Mr Howell is still awaiting a "reasonable" plan from the GLC on LT. He does not see comment on the four options put forward two weeks ago by Mr Ken Livingstone, Leader of the GLC, as part of the Department's role.

The removal of LT from the GLC would involve simple legislation because the London Transport Executive would be able to continue to run LT. The much more complex legislation which would abolish the GLC is a possibility, but would involve other changes in local government. It is not likely to be introduced at least until the next parliamentary session, or perhaps for inclusion in the Tory manifesto for the next General Election.

The next meeting of the GLC transport committee, on July 14, will consider detailed plans for the 1983 and 1984 Transport Policies Programme (TPP) of the GLC, covering all transport for which the council is responsible. This plan includes such public transport options as a strict interpretation of the Law Lords' ruling against the cheap fares policy of the GLC, and the Council's Fares Fair policy. After the meeting, it will go out for consultation with all the other interested local authorities and other bodies. By the autumn, the GLC will decide on the formal TPP to be submitted to the Department of Transport.

Mr Howell is believed to take the view that recent events in transport in the capital dictate that some other form of control of LT is becoming increasingly urgent. He is expected to await the publication of the report on LT by the Select Committee on Transport before he goes ahead.

One possibility is that LT will return to Departmental control temporarily, while plans are drawn up for a transport authority which would be responsible for the planning and supply of transport in London and the south-east on the basis of contracts with LT and British Rail. That would enable the move towards greater integration, on matters such as fares, between LT and BR.

Merchant banks manage less pension fund assets

BY ERIC SHORT

MERCHANT BANKS are losing a significant share of the investment management of pension fund assets to other financial institutions. But they still look after the majority of pension fund investments.

This is one major conclusion from the latest annual survey of pension fund investments made by a leading firm of consultant actuaries, Bacon and Woodrow. Over 200 pension schemes with segregated funds—funds with direct investment holdings—have contributed data to the survey.

It shows that, at the end of 1974 merchant banks looked after the funds of 71 per cent of pension schemes. Seven years later, at the end of 1981, this proportion had fallen to 52 per cent.

Stockbrokers increased their share of the pension fund investment market from 16 to 21 per cent, while the share of clearing banks rose only marginally from 6 to 7 per cent.

But the biggest inroad into the dominant position of merchant banks was made by other financial institutions, whose share expanded from 7 to 20 per cent.

Renewed unrest in EMS forecast

By David Marsh

THE PERIOD of calm in the European Monetary System (EMS), following last month's devaluation of the French franc, is not likely to last long, according to two reports on the currency stabilisation scheme just published in London.

They predict a fresh bout of unrest leading to more pressure for devaluation around the turn of the year.

Lloyds Bank, in its International Financial Outlook publication, says pressures may now focus on the lira which was devalued by a smaller rate than the franc in the June realignment.

The Italian currency could be a candidate for a bigger devaluation early next year, with the D Mark and the Guilder likely to be revalued.

Lloyds says, however, that if the D-mark continues to be weak against the dollar, or recovers only modestly, the need for further EMS changes will be limited.

Stockbrokers Simon and Coates in their monthly bulletin on financial prospects say that the realignment and economic policy changes in France last month would have no more than a temporary effect in stabilising the currency scheme.

Over the short term of around three months, the firm says it expects pressure to break out on the Belgium franc and Irish punt. In the longer term—six-nine months—the French franc will again be in trouble.

The stockbrokers say that the Paris Government's new austerity package may not be effective in producing a lasting fall in inflation.

Super-bugs eat farm waste

NEW BREEDS of super-bugs are on the loose in the farmyards, tackling some of agricultural's thorniest problems — how to get rid of waste and smells.

Two products based on the super-bugs were announced at the Royal Show, which opened at Stoneleigh yesterday.

One contains millions of the specially bred micro-organisms which literally eat their way through waste, and eliminate smell.

Textile industry's profits forecast to rise 20%

BY MARK WEBSTER

THE TEXTILE industry should see profits rise about 20 per cent this year and a real improvement in profitability during 1983, according to stockbrokers Phillips and Drew in its review of the industry out today.

It says 1981 saw the first signs of a recovery in profits

Courtaulds' profits rose from £5m to £50m while the eight other largest textile companies showed total pre-tax profits increases of some 45 per cent.

The improvement in profits this year will stem more from the industry's drastic reorganisation than from any market upturn but 1983 promises good growth in UK consumption of textile goods and improvements overseas.

The UK industry's production dropped 10 per cent in 1981, taking the total fall over two years to nearly 30 per cent.

The main problem has been import competition. Phillips and Drew estimates that textile and clothing imports rose 8 or 9 per cent in volume terms while exports fell by more than 15 per cent.

Police hunt for fraud couple

A NATIONWIDE police hunt is under way for a smartly dressed man of about 50, his female accomplice and the woman's two children who all stay at the best hotels and guest houses, amassing huge bills.

Then they leave without paying — or settle with a stolen cheque.

Growth forecasts average 1.2% this year and 2.3% in 1983

Max Wilkinson reviews an FT analysis of 15 predictions for economy

AN FT analysis of 15 forecasts for the UK economy, all made since the last Budget, show a close consensus about the prospects for growth, inflation and unemployment this year and next.

The average prediction for growth in output this year is 1.2 per cent; and all but two of the forecasts come within half a percentage point of this figure. One extreme is represented by the Cambridge Economic Policy Group's base projection, which suggests a slight decline this year. On the other, the Liverpool group, which has been consistently more optimistic than others, expects rapidly accelerating growth from the second half of this year.

If these two forecasts are excluded, the rest are within about one percentage point of the average prediction of 2.3 per cent for growth in 1983. However, the National Institute of Economic and Social Research, which has tended towards pessimism about likely demand in the economy, suggests growth at only half the average rate in the FT analysis.

This average should, however, be regarded as only a general consensus figure, partly because of the margin of error inherent in these forecasts, and partly because different assumptions are made by different groups.

The Treasury, for example, estimates that the average error in predicting the growth in output has been one percentage point in the past, which is of the same order as the total growth expected this year.

The Treasury's own prediction of 1.5 per cent growth this year was made at the time of the last Budget — before the recent rise in the dollar and strengthening of U.S. interest rates. The Treasury's latest, unpublished, forecast is more pessimistic and probably puts growth for this year at about 1 per cent.

The influence of different assumptions can be seen in a comparison of the predictions made by the London Business School and the National Institute. The National Institute's forecast is made on the basis of "unchanged policies." This contributes to its prediction of very sluggish growth for 1983. However, the business school assumes mildly expansionary measures in the next and subsequent Budgets.

At the more optimistic extreme, the Liverpool University group continues to believe that tight monetary policies will create a circle of rapidly-falling inflation and high growth, with a consequently reduced need for government borrowing.

In contrast with this monetarist view, the Cambridge Economic Policy Group at the university's Department of Applied Economics is pessimistic, in its base case, about the performance of exports relative to imports. Because of the weak competitiveness of UK industry, even a 3 per cent revival of consumer spending would not lead to a growth of output.

However, this group has also made a prediction on the assumption of a spontaneous, export-led recovery. This shows growth could be 1.5 per cent this year and 2.5 per cent next year. However, the group shows little optimism that this will happen.

One of the major uncertainties, shown up by this comparison of forecasts, is about the trend of exports and imports. Gaps in last year's figures and new methods of collecting statistics have made the trends very difficult to interpret.

All the forecasters agree that a substantial increase in imports can be expected, reflecting an increase in import penetration as well as the moderate recovery of economic activity. For next year there is general agreement that exports should pick up by about 4 per cent in response to a revival of world trade.

However, the expectations about export performance this year are more disparate. Some forecasters, predict almost no improvement while others take the Treasury view that an improvement of 3.5 per cent to 4 per cent can be expected.

A comparison of the FT average of the forecast with one compiled at the end of last year shows substantially greater optimism about inflation, now expected to fall to a little under 9 per cent by the end of this year compared with the 10.3 per cent annual rate predicted in December.

This FT average is a little higher than it might be because no allowance is made for the fact that some forecasts are for an average annual rate.

The average prediction now for public sector borrowing this year is about £8.5bn, which is £3bn less than the average expected in December.

The average prediction of adult unemployment of 3m by the end of this year is about the same as it was in the last survey of forecasts.

Most groups continue to predict a worsening unemployment trend, except for the Liverpool group which predicts a substantial fall in the jobless to 2.5m next year.

THE UK ECONOMY: COMPARISON OF FORECASTS

Percentage change year on year in 1975 prices unless otherwise stated		Gross domestic product		Consumer spending		Exports		Imports		Retail price inflation (year end)		Unemployment (adults) fourth quarter m		Balance of payments; current account £bn		Public sector borrowing requirement £bn	
		1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1982	1983	1981	1982	1982–83	1983–84
Treasury	(Mar)	1.5	1.9	0.5	0.5	3.5	3.0	9.5	3.5	9.0	7.5	—	—	4.0	3.0	9.5	—
IMF	(April)	0.8	1.6	0.5	—	3.8	—	10.1	—	10.2	—	—	—	4.7	—	—	—
National Institute	(May)	1.0	1.1	0.2	0.3	2.7	4.0	7.4	3.3	9.5	8.7	3.0	3.3	6.2	8.6	7.9	7.1
London Business School	(Jun)	1.0	2.8	0.6	1.9	0.4	6.1	8.5	5.4	7.9	7.6	3.0	3.1	2.2	2.9	8.8	9.6
Confederation of British Industry	(June)	0.9	2.0	0.6	1.4	0.4	4.9	6.6	5.5	8.5	6.8	2.9	3.0	3.0	1.8	8.7	9.5
Cambridge Economic Policy Group	(April)	−0.4	0.4	−0.9	3.0	−1.5	−0.6	5.4	6.0	8.5	6.2	3.1	3.4	—	—	—	—
Economist Intelligence Unit	(May)	1.3	2.3	0.6	1.8	4.2	3.0	9.6	4.8	10.1	10.6	2.98	3.0	3.6	2.7	9.2	9.5
Liverpool University	(June)	2.5	4.7	—	—	—	—	—	—	7.6	4.3	2.8	2.5	5.1	3.5	8.6	3.9
Cambridge Econometrics	(June)	1.5	3.0	−0.3	2.6	4.8	5.5	5.5	9.9	10.0	8.8	3.2	3.2	4.0	0	—	—
Phillips & Drew	(July)	1.4	2.4	0.1	2.8	1.8	3.5	6.6	5.1	7.6	7.0	2.9	3.0	2.5	0.7	9.4	9.5
Simon & Coates's	(July)	0.9	3.1	0.3	2.6	1.6	8.0	7.0	9.3	9.1	9.5	2.9	2.9	2.0	−0.8	8.0	7.5
Laing & Cruickshank	(July)	1.6	2.0	0.0	1.4	3.1	4.3	6.5	5.4	8.4	9.6	3.1	3.2	3.2	0.3	8.6	9.3
Staniland Hall	(April)	1.3	3.0	−0.6	2.7	—	—	—	—	—	—	2.9	2.9	4.0	—	—	—
James Capel	(June)	0.8	2.0	−0.3	3.7	4.1	4.9	9.0	9.7	8.6	8.5	2.95	3.05	3.1	1.5	8.0	—
Capel-Cure Myers	(July)	—	1.5	0.4	2.0	0.5	3.0	6.5	5.0	8.5	8.0	3.2	3.3	3.5	1.5	10.5	9.0
Average		1.2	2.3	0.1	2.0	2.3	4.1	7.6	6.1	8.8	7.9	3.0	3.1	3.7	2.1	8.8	9.0

NOTES:
Retail prices: IMF. National Institute; CEPG average for year. Capel-Cure Myers second half of year.
Unemployment: CEPG, Liverpool, Cambridge Econometrics, annual average.
Treasury: 1983 forecasts all first half compared with first half of 1982. PSBR is first half at annual rate.

Private housebuilding recovery falters but optimism remains

BY ANDREW TAYLOR

THE RECOVERY in private housing starts has lost a little of its momentum since the first quarter of this year, according to the latest state of inquiry by the House-Builders' Federation published today.

However, Mr Roger Humber, federation director, says: "Housebuilding activity has settled down at a higher level than at any time during the last two years."

Replies from 300 builders producing about 60 per cent of new houses in England and Wales showed that 47 per cent of builders expect to make starts on more homes this year. In the first quarter about 57 per cent were forecasting a higher level of starts.

Larger companies remain more optimistic than their smaller- and medium-sized rivals. About 67 per cent of larger companies expect to increase housing starts this year and 25 per cent of them expect to hold starts at 1981 levels.

Slower rate of recovery expected

What appears to have happened is that builders which pushed ahead with housing starts in the early part of the year are expecting a slower rate of recovery during the rest of 1982.

The federation says, however, that starts this year will be well above last year's 116,000.

Recent forecasts by building industry bodies and trade associations suggest housing starts this year may rise to between 130,000 and 135,000. This would be a substantial improvement on the low levels of 1980 and 1981 but below the 144,000 made in 1979 and 157,000 in 1978.

The federation says building activity may increase in the autumn if there is a further reduction in mortgage interest rates.

It says that 12 per cent of companies reported delays in arranging mortgage finance, reflecting the high demand for mortgages. In spite of this, the mortgage situation is generally healthy, says the federation.

Privatisation plan for Telecom likely this month

BY GUY DE JONQUIERES

THE GOVERNMENT is expected to announce plans this month to turn British Telecom into a public limited company, as the first step towards the eventual sale of shares in the organisation to private investors.

The necessary authority will be sought in broad enabling legislation, likely to be introduced in the autumn. It is also expected to include provisions to set up a new body to regulate the telecommunications market.

The Government has not, however, decided on a firm timetable for selling shares in Telecom which, with net assets of £8bn, would be the biggest nationalised industry offered to investors. But the likelihood of a sale during this Parliament appears to be diminishing.

Passage of the legislation is likely to take several months and more time would be needed to make practical arrangements for a share sale. Ministers recognise that investors could be reluctant to support an issue less than a year before the next General Election, which must be held by the spring of 1984.

Some indication of investors' sentiment may emerge when Telecom goes ahead with its long-delayed plan to raise as much as £150m through the sale of Buzby Bonds. The bond issue, which will probably be in two chunks, is expected to take place early next year.

The Government has still to deal with objections from the Post Office Engineering Union, which represents most of Telecom's staff and continues to oppose any plans for the sale of equity to private investors.

Attempts are being made to persuade the union that private investment in Telecom would *open the way to further expansion* and job opportunities, by freeing the organisation from financial restrictions imposed by the Government.

Establishment of a regulatory body to ensure fair competition is regarded in Whitehall as an essential consequence of less direct government control over Telecom. Although the exact powers such a body should be given are under discussion, they would be likely to include supervision of telecommunications tariffs and the terms on which inter-connection was granted between Telecom's network and such competing systems as Mercury, the planned network of independent business communications.

NEDC to study review paper on economic outlook

BY ALAN PIKE, INDUSTRIAL CORRESPONDENT

MINISTERS and both sides of industry will have an opportunity for a wide-ranging examination of economic prospects when the National Economic Development Council (NEDC) meets on Wednesday.

The main item on the agenda is the review of the macroeconomic situation, which the council conducts annually. Discussion is certain to range across such topics as pay levels, unemployment and output growth.

The foundation for the debate will be provided by a paper from the National Economic Development Office, which traces the progress of the economy through the later stages of the recession and looks at prospects. It has become apparent, says this report, that the battle to defeat inflation has taken longer, and been at a greater cost in output and employment, than was originally envisaged

Call for copyright reform

BY ALAN PIKE, INDUSTRIAL CORRESPONDENT

COPYRIGHT LAWS covering industrial design and the copying of documents need to be Somerset. A more prolific made more workable for industry, the Confederation of British Industry has told the Government.

In evidence following the publication of a government green paper on possible changes in the law, the CBI says industrially produced articles should be protected from "slavish copying." There could, however, be no objection to the "copying to those features of an article which must conform to a particular shape in order to do its job."

"This would provide a safeguard against straightforward copying of many original parts but would not prevent the production of alternative spares of different designs

Treasury in lone stand on council spending

By Robin Pauley

THE TREASURY is fighting a last-ditch but lone battle against Mr Michael Heseltine, Environment Secretary, to persuade him to penalise English local councils for budgeting to overspend by £1.4bn in 1982-83.

A committee of ministers chaired by Mrs Thatcher has become so bored with the fighting between Mr Heseltine and Mr Leon Brittan, Chief Secretary to the Treasury, that it cut the debate short recently and told them to fight it out elsewhere.

Mr Brittan has proposed successively that the penalty for overspending should be grant cuts of £500m, £200m and £100m, all of which were rejected. Ministers accepted Mr Heseltine's argument that any penalty would have to be applied to all authorities including underspenders.

Ministers had promised that no council planning to spend less than the Government's assessment of the amount needed to provide a standard level of services would be penalised, and that no penalties would be applied differentially once the financial year had started. Councils will be unable to make up the loss by levying a supplementary rate once the Local Government Finance (No 2) Bill reaches the statute books

Mr Brittan has come up with a new idea now. The total amount of grant paid to councils is fixed and is always less than the amount councils claim at the start of the year. This year the overclaim is £80m.

Instead of reducing each council's grant claim on a pro-rata basis, as normal, Mr Brittan is proposing that overspenders would lose proportionately more and some underspenders would lose nothing.

Mr Heseltine has insisted that this is nothing more than a trick to dress up the unacceptable "differential holdback" as "differential close-ending."

The effect is the same and councils could rightly accuse the Government of breaking solemn pledges, he says. Virtually all ministers in the group agree but Mr Brittan is still trying to stand his ground.

This means the issue will have to return unresolved to the ministerial group in the next two weeks and that is expected to annoy Mrs Thatcher.

She is likely to kill Mr Brittan's idea on the grounds that the furore would not be worth the tiny penalty, compared with the large overspend.

Coal Board's bleak vision carries threat of closures

Sue Cameron examines prospects for the industry

MR ARTHUR SCARGILL, president of the National Union of Mineworkers, is not expected to lay much stress on the National Coal Board's latest state-of-the-industry briefing document when the union's conference opens in Inverness today.

The document is slim—only 21 pages plus a few appendices. And its history is not a happy one. It was presented at the ill-fated meeting between the board and the NUM executive 10 days ago when Mr Scargill walked out

The document spells out the bleak situation facing the UK coal industry. It shows how far the high hopes embodied in the 1974 Plan for Coal have fallen short of realisation. And despite the tactful language and the strenuous denial that the NCB has a "bit-list" of pits to be closed, it underlines the need for an end to uneconomic mining capacity.

Mr Norman Siddall, the new chairman of the NCB, has admitted that 50-60 British pits are uneconomic and under "serious review." The briefing document gives details of the size and the cost of the problem.

After a throat-clearing "however," a "for example" and "at the present time" it finally admits baldly: "Some 12 per cent of the annual output is obtained from collieries which are persistently unprofitable, representing an annual loss of some £250m." The 12 per cent figure refers to deep-mined coal production, running at just under 110m tonnes a year.

To stem its losses and reduce dependence on government grants—which ministers are determined it should do over the next few years—the NCB needs to close some 13m tonnes of capacity, much of it in South Wales and Scotland.

Only a dramatic upturn in coal demand and a corresponding rise in prices could change this.

When the Plan for Coal was originally agreed by government, trades unions and the NCB, it was envisaged that UK coal demand would be 132m tonnes by 1985. It was also expected that between 1974 and 1985, a broad average of "some 3m and 4m tonnes of capacity a year" was likely to be lost, mainly through mines becoming exhausted.

> Despite its tactful language and denial of a "hit-list" of pits, the board's document underlines the need for an end to uneconomic mining capacity.

The plan was designed to provide around 40m tonnes of new and replacement capacity by the mid-1980s.

In the 1981-82 financial year, UK coal sales were 117m tonnes. And Mr John Mills, one of the NCB's two deputy chairmen, reckons the figure is likely to be much the same in 1985.

While demand has failed to grow at the rate forecast, the capacity closed since 1973-74 has totalled only 8.391m tonnes. This averages out at a mere 1m tonnes a year — between a third and a quarter of what was foreseen. Yet, as the briefing document shows, investment in new and replacement capacity has continued apace.

The document says there has been an "increasing dependence on government grants" since 1978/79 with a "total of £575m necessary in 1981/82 to achieve an overall breakeven result."

The NUM refers to this breakeven result in the report of its national executive committee and comments "It is hard to see how this result can be repeated in 1982/83 unless there is a dramatic upsurge in coal demand or a substantial relexation of government financial restraints on the industry and an increase in grants to levels which prevail elsewhere in the EEC."

But in the absence of these—and none is likely—the alternative must be an increase in the closure rate of uneconomic pits.

The briefing document is not so indelicate as to say this. It talks of the need to "continue our efforts to achieve a balance between supply and demand," stresses that "exports can only be of limited and probably short-term help and impose a heavy financial burden on the industry" and makes the now-regulation denial about a hit-list of closures.

But the harsh facts and figures it contains point inevitably in the direction of further closures — closures that Mr Scargill has sworn to oppose.

NCB may hive off stocks to private investors

BY RAY DAFTER, ENERGY EDITOR

THE NATIONAL Coal Board (NCB) plans to set up a futures market for coal in a bid to reduce its heavy stock financing costs.

The scheme, being devised in consultation with the Treasury, would involve the hiving-off to private investors of some of the NCB's stocks, now running at a near-record level. Various ways of implementing this move are being considered by the NCB and merchant bank advisors.

NCB stocks stand at about 24m tonnes. They have built up as a result of depressed demand and maintained output levels arising from productivity deals. The financing costs of holding these stocks—at between £5 and £6.50 a tonne—are running at over £120m annually.

But the NCB regards only 10m tonnes of stocks as a minimum requirement for strategic purposes. Therefore, it is looking at ways of finding private investors for a proportion of the 14m tonnes balance.

The NCB said yesterday that, whatever scheme was devised, the coal would remain at the pits in the same way as at present. Coal sales would be guaranteed.

"We are examining with a number of banks what the effect would be of a futures market for coal," it said.

"As we see it, a bank or banks would lend us money to finance an agreed amount of stock which we would repay with the coal as sold in accordance with any agreement reached."

Greater petrol sales push up oil consumption

By Richard Johns

AN INCREASED volume of petrol sales is the main reason for a 3.2 per cent rise in UK consumption of oil products in the three months from March to May, compared to the equivalent period of 1982, according to the Department of Energy and oil companies.

Relatively low petrol prices and better weather for travel after the severe winter were the main reasons for greater consumption.

Other factors included the greater amount of fuel oil burned by the Central Electricity Generating Board in May, and higher input of naphtha by the petrochemical industry.

A-waste costs quarter of research budget

By David Fishlock, Science Editor

MORE THAN a quarter of the research and development budget of the Department of the Environment is spent on management of radioactive waste, says a department research report. Almost £10m of a £36m research budget, 27 per cent, was spent on this in 1981.

Only construction, with a 29 per cent share, received more support. British Nuclear Fuels received a two-year contract worth more than £2m from the Department for research on vitrifying of highly radioactive wastes from spent nuclear fuel reprocessing.

Peter Riddell examines the Chancellor's strategy statement

Howe aims to draw in tentacles of the state

A COMMITMENT to widen choice and ownership in industry and the social services, to deregulation and to make markets work, should form the core of the Conservative Party's programme for the next Parliament, Sir Geoffrey Howe, the Chancellor of the Exchequer, said in an important weekend speech.

In a lecture to the Conservative Political Centre summer *school at Cambridge — Sir* Geoffrey was clearly attempting to stimulate the party's debate about the priorities after the next general election.

Sir Geoffrey set as his objectives tacking the root causes of unemployment, reduction of the fiscal and regulatory burdens of the State on people and business, and extension of choice.

The main points in the speech:—

● Reform of the labour market: "There is growing evidence that the link between pay and jobs, and the crucial importance of profits, are being grasped—at least outside some union leaderships. . . From Plymouth to Port Talbot, there is a good deal more common sense."

"We shall need to consider whether unions themselves should be made more democratic to reflect this growing understanding. Already we have done much to protect the rights of non-union employees. *There are arguments for moving further to give the unions themselves back to their members by ensuring that they have a genuine say in the conduct of the union's affairs."*

"We have also the remove the inflexibility in the labour market which government, employers and unions together have conspired to achieve. Is there really a case for wage councils imposing minimum rates which frustrate market forces? Can we afford to move so painfully slowly towards a revived, deregulated private rental sector of housing which would allow people to move quickly and easily to find jobs? How long must we wait for the pension funds to respond positively to the pressure for early leavers' benefits?"

● Reducing controls: "Deregulation is vital to create an encouraging environment for enterprise and jobs. We need a searching scrutiny of all the regulations, the procedures and restrictions which still inhibit enterprise.

"The counterpart to deregulation is the promotion of competition. Both are vital to make markets work and generate growth and jobs."

● Taxation: "The constraints on pursuing further and faster the path of tax reform are well known. The first is the momentum and size of public spending programmes and the need to raise revenue to finance them responsibly. The second is our inheritance of legislative lumber. We have to find a sensible path between simplicity which may be commendable for fiscal reasons and the survival of reliefs which, though anomalous, are designed to serve a social purpose. The third is that whatever the merits of particular reforms we cannot lose sight of the fact that implementing fundamental changes in a complex, manual-based tax system is expensive and time-consuming. The fourth is the important political consideration that it is bound to be difficult to introduce major improvements and reforms to the tax system on a revenue-neutral basis.

These considerations apply to each of the major policy areas which we have to consider. Would it be appropriate to reform and reduce the level of reliefs in personal and corporate taxation? And to what extent could we reconcile such reduction with our broader social aims? Again, how far can we deal with the obvious inequities in the taxation of savings?

"We cannot easily justify, in a society that needs to look with favour on risk-taking and innovation, a specially-high rate of tax on investment income. Nor is it easy forever to accept that self-help and thrift in provision for retirement is better encouraged through institutional than through private saving. Not the least intractable problem is, of course, the poverty trap. In order to cater for those in need, successive governments have raised benefits and allowed real tax thresholds to drop in order to pay for them. The effect on incentives is undoubtedly harmful."

● Inflation: "The pressing forward of a strategy of limiting money growth and government borrowing in the next Parliament is essential. What we have to do is to ensure that the defeat of inflation is permanent and is seen to be so. We have to encourage further reductions in the rate of increase in nominal costs and pay and clearly establish a trend towards price stability."

● Privatisation in industry: "Public utilities and the so-called 'natural monopolies' cannot all be allowed to remain without change or challenge within state ownership. Increased competition must be accompanied by progress towards more real public ownership—ownership by the public, not by the state. This may require new structures for managements and accounting. It may also require the institution of regulatory bodies to protect the public interest and ensure fair competition.

"But the moral of the ceaseless debate between government and nationalised industry managements about investment and efficiency and between the industries and their customers on prices and service is simple and fundamental. It is that state ownership and control should be displaced or supplemented, wherever sensibly possible, by the discipline and pressures of the market place and by some degree of private ownership."

● Privatisation in local government: "In the past the only effective way of achieving notable reductions in local authority spending has been through the transfer of services elsewhere. That may yet be true again. If so, it should be to private enterprise not the state or its agencies that such a transfer of functions must be made. We must strengthen local government's accountability and reform the rating system. We must combine sensible central management of the big issues with a high degree of local autonomy."

● Privatisation in social policy: "The way forward must embrace a constant readiness to review our commitments and to consider market mechanisims as a means of promoting greater cost-consciousness and of extending choice. We must meet the increasingly-frustrated demands of society in a fair and efficient way.

"Take health: We must consider the scope for more consumer choice, more cost consciousness and more private provision. Private health insurance is already one of Britain's growth industries. By 1981 the number of people covered by private health insurance schemes had risen by over 70 per cent since 1978. We must encourage that proportion to grow faster and ensure that it is by no means confined to the better off.

"Another and closely linked issue is the role of voluntary organisations. What scope is there for a further movement towards encouraging voluntary effort in personal social services? And with unemployment the grave problem that it is, are there ways in which the charities could be brought individually or collectively together to provide jobs for young people and more care for those in need?

"A similar approach could be attractive in education as well. Widening choice, encouraging private provision, ensuring more flexibility, while improving value for money: those are our proper goals. A voucher system whereby parents would have an even greater choice of schools for their children and whereby standards might be raised through more competition is one possibility.

Student loans to encourage greater responsibility and self-help are another. Perhaps there is scope for more community involvement in the financing and management of local schools. All these approaches, to the extent that they are compatible with our overriding public spending and monetary objectives, are worthy of serious consideration."

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
July 5-8	Royal Show (0203 555100)	Kenilworth
July 6-8	Integrated Energy Exhibition (0272 572 624)	Bristol Exhibition Centre
July 8-11	North London Home Improvement Exhibition (01-328 8581)	Alexandra Palace
July 13-15	Environmental Engineering Today International Exhibition and Symposium—SEECO (0763 71209)	Wembley Conference Centre
July 13-16	The Royal Tournament (01-371 8141)	Earls Court
July 14-31	International Dental Exhibition—EXPODENT (01-935 8200)	Olympia
July 18-22	Harrogate Gift Fair (0282 867153)	Exhibition Centre, Harrogate
July 26-30	World Congress and Exhibition for Ultrasound in Medicine and Biology (01-486 6582)	Met Exbn Hall, Brighton
Aug. 8-12	International Gifts Fair (01-855 9201)	Olympia
Aug. 12-14	Wine and Beer Festival (01-778 1256)	Met Exbn Hall, Brighton
Aug. 20-30	Motor Cycle Show (01-385 1200)	Earls Court
Sept. 5-8	International Hardware Trades Fair (01-643 8040)	Olympia
Sept. 5-12	International Air Show (01-839 3231)	Farnborough
Sept. 7-10	Label, Labelling, Marking and Identification Industry Exhibition—LABELEX (01-467 7728)	NEC, Birmingham
Sept. 7-10	International Carpet Fair (021-705 6707)	Harrogate
Sept. 14-16	Coil Winding International '82 (0202 891339)	Wembley Conference Centre
Sept. 21-23	Harrogate Fashion Fair (01-637 2400)	Harrogate
Sept. 21-23	Environmental Health Exhibition and Congress (01-637 2400)	Scarborough

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
July 21-24	Security Asia Exhibition (0483 38085)	Hong Kong
July 31-Aug 3	Hamburg Trade Days (0202 732648)	Hamburg
Aug 11-15	International Trade Fair for Hotels, Restaurants, Catering and Food—HOTELRES (01-681 7688)	Bangkok
Aug. 18-21	Business Equipment and Computer Exhibition — COMBEX (0483 38085)	Hong Kong
Aug. 19-21	International Electronic Packaging and Production Equipment Exhibition—INTERNEPCON (0483 38085)	Singapore
Aug. 27-29	International Men's Wear and International Jeans Fair (01-730 4645)	Cologne
Aug. 30-31	Fashion Samples Fair—INTERCHIC (01-749 3061)	Berlin
Aug. 30-Sept. 2	Indro-Perfumery Exhibition (01-486 1951)	Utrecht
Sept. 4-7	Women's Ready-to-Wear Clothing Show (Paris (1) 268-08.40)	Paris
Sept. 11-16	International Public Works Congress and Equipment Show '82 (01-637 2400)	Houston
Sept. 14-18	International Electrical Technology Fair—FINNTECH (01-486 1951)	Helsinki
Sept. 14-19	International Exhibition for Auto, Motor Car Workshop Service Station and Garage Equipment (01-734 0543)	Frankfurt

BUSINESS AND MANAGEMENT CONFERENCES

Date	Title	Venue
July 5-6	MSS Computer and Business Consultancy: Management by objectives (Worthing 34755)	Worthing
July 7	Energy Business Centre: China Offshore (01-439 9021)	Cafe Royal, W1
July 8	CBI: The Protection of Hearing (01-379 7400)	Centre Point, WC1
July 8	IPS: Inventory cost and control (0990 23711)	Kensington Palace Hotel, W8
July 8	Leisure Consultants and Reed Taylor: Leisure and Work—the choices for 1991 and 2001 (01-377 8833)	Cumberland Hotel, W1
July 8	Resource Surveys: The Soviet Union and the World's Commodity Markets in the 1980s (01-390 0126)	Cafe Royal, W1
July 9	ESC: Sponsorship—New media, new developments, new projects (057282 2711)	Selfridge Hotel, W1
July 12-13	FT Conference: Business reorganisation — a balancing of interests (01-621 1355)	Inter-Continental Hotel, W1
July 13	Industrial Relations Services: Self-certification, sick pay and sickness benefit (01-328 4751)	Lords Conference Ctre, NW8
July 14	Oyez: Direct Labour Organisations and the New Law (01-242 2481)	Carlton Tower Hotel, SW1
July 15	The Henley Centre for Forecasting: International business prospects (01-353 9961)	London Press Centre, EC4
July 15	American Chamber of Commerce: The Role of the EEC Institutions and the Major Current Issues Affecting Business (01-730 3176)	Hyde Park Hotel, SW1
July 15	Focus: Understand Finance Workshop for Managers (0273 500796)	London Metropole Hotel
July 19-20	IARC: Power and Political Behaviours in Organisations (01-486 6106)	Great Western Hotel, W2
July 27-28	MSS: Finance for the Non-Financial Director (0903 34755)	Worthing
Aug. 23-27	Management Training Consultants: Techniques of supervisory and management training for trainers (0533 27062)	Leicester
Aug. 30-31	FT Conference: Aerospace enters a new era (01-621 1355)	Grosvenor House, W1
Sept. 6-8	Frost and Sullivan: Data communications: advanced concepts and systems (01-486 8377)	Mount Royal Hotel, London
Sept. 7-10	Concrete Society: Industrial Relations Services: Law for personnel industrial relations and works managers (01-238 4751)	Royal Horseguards Hotel, Ldn
Sept. 7	Centre for Extension Studies: Contingency planning for bomb, arson and kidnapping threats (0509 263171)	Loughborough
Sept. 9	Oyez/IBC: The art of negotiating (01-242 2481)	Hyatt Carlton Hotel, SW1
Sept. 13-15	International symposium on concrete roads (01-235 6661)	Tara Hotel, W8

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no change in the details published.

Union leaders to withdraw craft workers from NHS stoppage

BY JOHN LLOYD, LABOUR EDITOR

LEADERS of electricians and engineering workers in the National Health Service today will dissociate their members—who perform key tasks in hospitals—from the escalation of the health service dispute.

The 5,000-6,000 craft workers are likely to be told to work normally, during some or all of the three-day strike, called by the TUC health services committee from July 19-21.

This dissent in the unions' ranks—the first since the dispute started eight weeks ago—will surface today at the meeting of top officials of all unions which have members in the health service. Mr Len Murray the TUC General Secretary, called today's meeting.

The Confederation of Shipbuilding and Engineering Unions, which brings together all engineering unions, has in the past given its support to the NHS pay campaign. However its representatives at today's talks, Mr Alex Ferry, the CSEU's General Secretary and Mr Ed Scrivens an executive council member of the Amalgamated Union of Engineering Workers, will argue that the support was given on the basis of one day strikes and before the Government improved its pay offer from 6 per cent for nurses and 4.5 per cent for other staff to 7.5 per cent and 6 per cent respectively.

Some NHS electricians who are linked to wage levels set by the Electrical Contractors' Joint Industrial Board have settled already — though others are dependent on the overall NHS settlement.

Unions such as the Transport and General Workers and the General and Municipal Workers, which affiliate to the CSEU, are not covered by it in negotiations for their NHS members. Their leaders will argue a separate line from the confederation representatives.

Giant tractor on show

ONE OF the biggest tractors made its debut in Britain yesterday at the Royal Show, exhibited by Massey-Ferguson.

The vehicle is intended to boost the productivity of cereal growers and other big producers. Its work output is indicated by the giant 160-gallon fuel tank which gives a full day's work without refuelling.

Wider ban on fair pay pact sought

By David Goodhart, Labour Staff

THE GOVERNMENT'S plans to set aside the Fair Wages Resolution has been backed by the majority of employers' organisations.

The Department of Employment has completed a one-month consultation with interested parties about the future of the resolution, which ensures that government contractors pay wage rates not less favourable than those established by relevant collective agreements.

The Engineering Employers' Federation and the Institute of Directors have led a call for abolition. The CBI has been given a week's extension by the department to reach a decision.

NGA fears shift in Fleet Street power

BY IVO DAWNAY, LABOUR STAFF

THE possibility of a merger between Fleet Street electricians and the Society of Graphical and Allied Trades is the subject of growing speculation among members of the National Graphical Association, the main craft print union.

Several delegates to the NGA conference in Eastbourne last week alleged that secret talks between the Electrical Plumbing Trade Union's London Press Branch and Sogat have been under way for some time.

The claims were immediately denied by Mr Sean Grarty, secretary of the 1,300-strong EPTU branch.

"Neither I, nor any members of my committee are having any discussion with Sogat. There is no truth in it," he said.

The question was raised openly on Friday when Mr Mike Power, a London delegate, formally asked the union's national council whether the NGA had opened talks with the EPTU.

He was backed by Mr Calvin Brindley of Manchester who said he had heard Sogat was "actively wooing" EPTU Fleet Street members.

Mr George Jerrom, national officer, said that the national council had not heard anything to support the claims.

A realignment of Fleet Street's electricians could seriously alter the balance of power among newspaper unions away from the NGA.

With the growth of computer print technology, many NGA members are already concerned that they do not receive the training to maintain equipment in areas under their jurisdiction.

Unions to seek seats on Engineering Council

BY JOHN LLOYD, LABOUR EDITOR

UNIONS representing engineering workers will push for representation on the new Engineering Council, a move which may shatter the traditional barrier between chartered professional engineers and shopfloor workers.

The demand was passed narrowly at the annual conference of the Confederation of Shipbuilding and Engineering Unions last week. It commits the CSEU to fight for seats on the council, possibly through direct election by engineering workers. All members of the council are appointed at present.

The proposal is that the council should embrace "engineering technicians" and "technician engineers" as well as chartered engineers and managers. The Amalgamated Union of Engineering Workers and the Electrical and Plumbing Trades Union organise some 250,000 of these craft workers.

Success would have far-reaching implications for the engineering industry, bring the unions into debate and decision-making on the council, and hasten the blurring of technical and other grades.

The chairman of the new council, Sir Kenneth Curfield, chairman of Standard Telephone and Cables, and Dr Kenneth Miller, its director-general, have a wide brief to improve the industry's standards and reduce duplication and rivalry between engineering institutions.

It is likely to take over registration of engineers from the Council of Engineering Institutions soon.

Engineering union officials believe that the number of craft engineers within the scope of the council exceeds by 50,000 to 100,000 the number of "professional" engineers who would be covered.

The move was a contentious one and scraped past on a card vote. The white-collar unions ASTMS and AUEW Tass argued strongly against the proposal, which they said would exclude their unions from the council, since the motion did not mention them.

Mr Stan Davison, deputy general secretary of ASTMS, said the conference should not adopt the motion because it was contrary to the TUC initiative.

Both he and Mr Ken Gill, general secretary of AUEW Tass, were proposed by the TUC for the council but not appointed.

Mr Geoffrey Drain, general secretary of the National and Local Government Officers' Association, is the sole union nominee. Mr John Lyons, general secretary of the Engineers' and Managers' Association, has been appointed.

APPOINTMENTS

Changes at Halifax

Mr J. O. Spalding has become chief general manager of the HALIFAX BUILDING SOCIETY in succession to Mr A. J. Thayre who has retired. In addition former general managers Mr M. Macaskill, Mr N. S. Watson and Mr R. C. Wheway have been appointed deputy chief general managers.

★

BARKER AND DOBSON GROUP has appointed Mr W. Kenyon as deputy chairman.

★

Mr Richard Gardner has been appointed managing director of LESLIE & GODWIN NON-MARINE with effect from Monday July 5, 1982.

★

THE ASSOCIATION OF INSURANCE AND RISK MANAGERS IN INDUSTRY AND COMMERCE has appointed Mr Hugh R. Loader, a chairman, and Mr Terry E. Sparkes as deputy chairman and chief executive.

★

Following the recent death of the chairman, Mr W. T. Hale, the Board of THOMAS MARSHALL (LOXLEY) has appointed Mr J. R. Gledhill as executive chairman. Two other appointments to the board are Mr C. B. Jackson (Secretary) and Mr T. T. M. Hale (non-executive).

★

The Board of HALCROW EWBANK PETROLEUM and Offshore Engineering Company announces the following: Mr M. H. Ewbank, chairman of Ewbank and Partners, takes over as chairman of Halcrow Ewbank from Mr D. S. Mayo, and Mr R. H. Pickering, commercial manager of Ewbanks, replaces Mr A. C. Blake.

★

Sir David Steel, former chairman of the British Petroleum Company, has been elected president of the London Chamber of Commerce and Industry, succeeding Earl Jellicoe, chairman of Tate & Lyle.

★

THE BOARD OF SYSTEMS PROGRAMMING HOLDINGS says Mr David Thomson will be joining the board as joint managing director of SPH and SJL on September 1.

★

EMERY WORLDWIDE has appointed a new director, Mr Christopher Buckerfield, to head up the company's operations in the UK, Scandinavia, South Africa and parts of the Middle East.

★

Mr E. J. Pateman has been elected chairman of the board of directors for JOHNSON MATTHEY BANKERS.

★

TANDATA MARKETING has appointed Mr Peter Dodds as sales director. He was manager, marketing services for Redifon Computers, Rediffusion Group.

★

UNITED CITY MERCHANTS has appointed Mr David J. Rippon as managing director of U.C.M. Trade Finance and will be appointed to the U.C.M. board. His main responsibility will be to develop the group's trade finance activities. He will co-ordinate the group's confirming business from London. He was with Arbuthnot Latham as deputy chairman of the export finance operations as well as a director of its banks in the Middle and Far East.

★

SCANDINAVIAN BANK GROUP has promoted: Mr Jan O. Birkenheim to assistant general manager; Mr Edmund J. Clarke—manager; Mr Nicholas C. Cannon—manager; Mr Geoff T. Ritchie—manager; and Mr Graham J. Vickery—manager.

CONTRACTS & TENDERS

THE WEEK IN THE COURTS

Temptation of palm-tree justice

THERE is a constant temptation in any tribunal, be it a court of law or an administrative body exercising judicial functions, to decide cases on what it thinks justice demands. Palm-tree justice, as opposed to justice according to law, is, however, the role of a Solomon and not of a judge sitting under a developed system of law.

A reminder of the judge's duty, to apply the law and leave any consequential injustice to legislative amendment, has come from the House of Lords. The case of *In Re Energy Conversion Devices Incorporated* involved the exercise of powers of the Patent Office, but the remarks of Lord Diplock apply likewise to all those who sit in judgment in tribunals or courts.

It is a fundamental principle of our constitution, unwritten though it may be, that questions of construction of all legislation are questions of law to be determined authoritatively by courts of law. Errors in construing legislation by inferior tribunals which are not courts of law are corrigible by the procedure of judicial review, while mistakes by courts of law can be corrected through the appellate system.

However specialised the tribunal and however much prestige the personnel in their specialist fields may have, no tribunal and no court of law has any power to vary the meaning of the language of the statute from case to case. Because the application of the proper construction might lead to an unjust result in one case never justifies the tribunal in changing the meaning attributable to the statutory provision. That is what is meant by the phrase, the rule of law.

Section 89 of the Patents Act 1977, which gives effect to the Patent Co-operation Treaty, prescribes the procedure to be adopted by the Patent Office in dealing with international applications for a UK patent. The procedure lays down time limits within which various steps must be taken; and, broadly speaking, the Treaty requires that the Patent Office in each state should treat an international application no less favourably than an application made directly to it for national patent.

One of the rules imposing a time limit relates to the period within which a copy of the international application must be filed at the Patent Office and the filing fee must be paid. The time limit applicable to the applications in the instant case was 20 months from the priority date claimed in the original international application to the receiving office — in that instance, the U.S. Patent Office. By the relevant date the applicants had not paid to the UK Patent Office any filing fee. That failure to comply with a time limit meant that the application was deemed to be withdrawn.

Another procedural rule stated that some time limits could be extended by the Comptroller of Patents, but the time limit prescribed in relation to the payment of the filing fee was expressly stated to be excluded from the discretionary power of the Comptroller. It had to be complied with strictly. The problem arose because of a decision of Mr Justice Graham in 1979 in *Fater SpA's Application**.

In that case the judge justified the grant of extension of time on the ground that, despite the statutory provision that an application should be taken to be withdrawn if the conditions were not fulfilled, there were extant proceedings before the Patent Office and the power to rectify irregularities overrode the prohibitions on extentions of time. That distinction has now been held by the House of Lords to be impermissible in law.

In the course of his judgment, the judge had said that the Patent Office was "an office for granting patents and not for refusing them, and in a special case such as this, when there is a conflict between two rules, they should, since justice demands it, *as a matter of discretion*, be read together in such a way as to aid grant rather than refusal." The italicised phrase appeared to have been understood by the Patent Office as meaning that, for the purpose of proceedings in that office, there was a discretion vested in the officer dealing with the matter to treat the same words in the statute, or the rules made under the statute, as bearing different meanings in different cases, according to whatever meaning the officer thought most appropriate to enable him to do justice.

An example of this heterodox, uncharacteristically unbureaucratic, approach to questions of statutory construction was produced to the Law Lords in the form of a recent letter written by an assistant comptroller in relation to another patent case. He wrote: "If it were necessary to ignore a statutory provision to do so, I considered (and still consider) that I have an inherent discretion to ignore the provision. Accordingly, I directed, using that inherent discretion, that in this type of case the Form 10 had to be accepted out of time and acted upon. This was done . . ."

Counsel appeared before the House of Lords on behalf of the Patent Office to repudiate the apparent claim by the Patent Office that it could vary its decisions by ignoring the law laid down by Parliament. The disclaimer to acting above the law provided, however, the opportunity for some forthright judicial language about the rule of law, which is directed to others than just the comptrollers at the Patent Office.

*[1979] F.S.R. 647.

Justinian

Favoridge makes mark on her first outing

RACING

BY DOMINIC WIGAN

IT SEEMS probable that we saw two outstanding performers of different generations at Sandown on Saturday. There is now little doubt that Kalaglow is the best 10-furlong performer of four years or older following his rout of such able performers as Lobkowiez, Rocamadour and Peacetime in the Coral-Eclipse. It also seems fair to assume that Favoridge is something quite out of the ordinary following her race course debut.

Introduced in the opener at Sandown on Saturday, the Kingston Maiden Fillies Stakes, Favoridge always travelled with consumate ease in the hands of Pat Eddery. After jumping off sharply, the Newmarket filly, who had to miss a race at Newcastle last week through the abandonment of the Gosforth Park card, was then allowed to idle (still in the lead) before being asked to win her race approaching the final furlong marker.

Her response to Eddery's question was immediate. Lengthening her stride the two-year-old went on to put six lengths between herself and Kimble Girl.

Favoridge is certainly bred to rank among the best of her generation. A beautifully balanced bay filly by Riva Ridge, she is out of the Baldric II mare Favoletta, already responsible for such "flying machines" as Amaranda.

Octogenarian, Harry Wragg, who rarely ventures away from his Newmarket home these days, was not present to his Favoridge win but his son, Geoffrey, said: "I don't know where she will run next, but it could be the Lowther Stakes at York."

At the present time there is no juvenile filly or, for that matter, colt, who I would care to support against Favoridge.

Domynsky, one of the North's leading two-year-old colts, returns to the fray at Pontefract today. The Easterby juvenile who, rather surprisingly, failed to cope with Time's Tide at Beverley last time out, runs in the Spindrifter Sprint Sakes.

If he is not now beginning to lose his edge following a busy spell which included two successful trips to Ripon, Domynsky will find no difficulty in giving weight to two other recent winners in John The Club and Our Molly.

Turning to the evening card at Windsor, Dance In May and Scottish Green appeal as two of the better propositions. Dance In May was in no way flattered by the three lengths margin of her victory over Crumble at Leicester just under a month ago; while Scottish Green is thought ready to return to his best in the Claremount Selling Handicap.

In his only race to date this term, Scottish Green did his best work in the closing stages of the 17-runner Wiltshire Handicap at Salisbury in May.

PONTEFRACT

2.45—Domynsky
3.45—Royal Diplomat*
5.15—Misdirected

WINDSOR

6.45—Dance In May
7.10—Scotish Green***
8.05—Second Miracle
9.05—Sabre Dance

TELEVISION

Tonight's Choice

Is that the sound of breaking glass or **The Sound of Music**? Probably the latter because Julie Andrews and Christopher Plummer are very popular with 65-year-old nuns and there will be a good audience for yet another re-run of the craggy weepy on BBC 2 at 7.30. The Corporation paid a lot for the TV rights so if you miss it this time, hang about.

Big films dominate on all channels, slotted in to compete with the World Cup. At 10.20 on BBC 1 there is a first TV showing for **The Sunshine Boys** which has a good pedigree—George Burns, Walter Matthau and a Neil Simon script. ITV has **Rio Conches**. If it sounds familiar it is because the plot line—"a hazardous expedition through Indian country"—is not the most original in cinema history.

On BBC 2 at 6.55 a very odd new series starts. It is from the Pebble Mill studios in Birmingham, not usually a recommendation, and mixes David Soul, who was either Starsky or Hutch, and Sally James who knows a custard pie when one is pressed into her face. Together they are presenting music and chat and it could either be the no no of the year or a surprise success. Much depends on how the soulful Soul copes with the indefatigable James, who is as sparky as a Catherine Wheel.

ANTONY THORNCROFT

BBC 1

6.40-7.55 am Open University. 1.00 pm News Afternoon. 1.27 Regional News (for England) except London and Financial Report. 1.30 Postman Pat. 3.00 Your Songs of Praise Choice. 3.38 Regional News except London. 3.40 Play School. 4.05 Pixie and Dixie. 4.10 Gulliver's Travels.

5.00 Newround.
5.10 Blue Peter Flies the World: Japan.
5.35 Paddington.
5.40 Evening News.
6.00 Regional News Magazines.
6.25 Nationwide.
6.55 Bugs Bunny.
7.05 Triangle.
7.30 World Cup Grandstand: Live coverage from the Bernbeu Stadium, Madrid.
9.55 News.
10.20 The Monday Film: "The Sunshine Boys" starring Walter Matthau, George Burns.

BBC 2

6.40-7.55 am Open University.
10.30 Play School.
†5.40 pm Laurel and Hardy.
6.00 The World About Us.
6.55 Six Fifty-five Special.
7.25 News.
7.30 "The Sound of Music" starring Julie Andrews, Christopher Plummer.
10.15 John Cheever.
10.45 Newsnight.

LONDON

9.30 am Sport Billy. 9.50 Pygmies—Children of the Rain Forest. 10.45 Crazy World of Sport. 11.10 Little House on the Prairie. 12.00 Cockleshell Bay. 12.10 pm Rainbow. 12.30 Supersavers. 1.00 News with Peter Sissons, plus FT Index. 1.20 Thames News with Robin Houston. 1.30 "A Farewell to Arms" starring Rock Hudson, Jennifer Jones. 3.45 World Cup '82.

6.15 News.
6.30 Thames News with Andrew Gardner, Rita Carter.
7.00 Coronation Street.
7.30 "Rio Conchos" starring Richard Boone, Stuart Whitman.
9.30 Best of British: Father, Dear Father—Patrick Cargill, Natasha Pyne.
10.00 News followed by Thames News Headlines.
10.30 World in Action.
11.00 World Cup '82 Highlights.
11.40 Barney Miller.
12.10 am Sit Up and Listen with Mavis Nicholson.

Because of World Cup coverage programmes will be subject to alteration.
† Indicates programme in black and white.

All IBA regions as London except at the following times.

ANGLIA
9.35 Cartoon Time. 9.45 International Darts. 10.15 Cities. 11.10 Hear Here. 11.25 Country People. 11.50 Wattoo, Wattoo. 1.20 pm Anglia News. 6.30 About Anglia. 11.40 Preview. 12.10 am Four Into One.

BORDER
9.30 am History of the Motor Car. 9.55 Story Hour. 10.40 Untamed World. 11.00 Sesame Street. 1.20 pm Border News. 6.30 Lookaround Monday. 6.45 Campaign. 11.40 Border News Summary.

CENTRAL
9.55 am It's a Musical World. 10.45 Beyond Westworld. 11.36 Stingray. 1.20 pm Central News. 1.30 Patterns. 2.00 Central News at the Royal Show. 6.30 Central News. 11.40 Central News. 12.15 am Come Close.

CHANNEL
1.20 pm Channel Lunchtime News. 6.30 Channel Report. 10.28 Channel Late News. 11.40 Aujourd 'hui en France. 11.45 The Incredible Hulk. 12.40 am News and Weather in French.

GRAMPIAN
9.30 am First Thing. 9.35 Sesame Street. 10.35 Feature Film—"Won Ton Ton: The Dog That Saved Hollywood." 1.20 pm North News. 6.30 Summer at Six. 11.40 Top Rank Fights of the 70s. 12.35 am North Headlines.

GRANADA
9.30 am The History of the Motor Car. 9.50 Story Hour. 10.35 Untamed World. 11.00 Sesame Street. 1.20 pm Granada Reports. 6.30 Granada Reports. 11.40 City of Angels.

HTV
9.55 am 3-2-1 Contact. 10.25 Kum Kum followed by Warner Brothers Cartoon. 10.45 Clapperboard. 11.10 Vicky the Viking. 11.35 The Greatest Thinkers. 1.20 pm HTV News. 6.30 HTV News. 10.28 HTV News. 11.40 Video Sounds. HTV Cymru/Wales as HTV West except: 11.10 Bailey's Bird. 12.00 Dacw mam yn dwad. 6.30 pm Y dydd. 6.45 Report Wales.

SCOTTISH
10.00 am Target the Impossible. 10.25 Circus. 10.50 Hands. 11.15 Story Hour. 1.20 pm Scottish News. 6.30 Scotland Today and Crimedesk. 11.40 Late Call. 11.45 Nero Wolfe.

TVS
9.30 am Sesame Street. 10.30 Story Hour. 11.25 Untamed World. 12.27 pm Gus Honeybun's Magic Birthdays. 1.20 TSW News. 6.30 Today South West. 10.32 TSW Late News. 11.40 Postscript. 11.45 The Incredible Hulk.

TTV
9.30 am Untamed World. 10.00 Friends of My Friends. 10.25 Tarzan. 11.15 The Real World. 11.45 Larry the Lamb. 1.20 pm TVS News. 6.30 Coast to Coast. 11.40 Hill Street Blues. 12.35 am Company.

TYNE TEES
9.20 am The Good Word. 9.25 North East News. 9.30 Hands. 9.55 Golfing Greats. 10.20 Cartoon Time. 10.30 Bygones. 11.00 Sesame Street. 1.20 North East News and Lookaround. 6.30 Northern Life. 10.30 North East News. 11.40 Champions. 12.00 Epilogue.

YORKSHIRE
9.30 am Sesame Street. 10.30 Jason of Star Command. 10.55 World We Live In. 11.20 Moby Dick and Mighty Mightor. 11.40 Children of Hong Kong. 11.55 The Undersea Adventures of Captain Nemo. 1.20 Calendar News. 6.30 Calendar, Emley Moor and Belmont editions. 11.40 Late Night Drama.

ULSTER
1.20 pm Lunchtime. 3.43 Ulster News. 6.30 Good Evening Ulster. 10.29 Ulster Weather. 11.40 News at Bedtime.

RADIO

(S) Stereo broadcast (when broadcast on VHF)

RADIO 1
5.00 am As Radio 2. 7.00 Steve Wright. 9.00 Simon Bates. 11.30 Dave Lee Travis including 12.30 pm Newsbeat. 2.00 Paul Burnett. 4.30 Peter Powell including 5.30 Newsbeat. 7.00 Stayin' Alive with Andy Peebles. 8.00 David Jensen. 10.00 John Peel (S).

RADIO 2
5.00 am Ray Moore (S). 7.30 Terry Wogan (S). 10.00 Jimmy Young (S). 12.00 Gloria Hunniford (S). 2.00 pm Ed Stewart (S). 4.00 David Hamilton (S). 5.45 News; Sport. 6.00 John Dunn (S). 8.00 Folk on 2 (S). 9.00 Humphrey Lyttleton (S). 10.00 Funny You Should Ask. 10.30 Star Sound. 11.00 Brian Matthew. 1.00 am Encore (S). 2.00 You and the Night and the Music (S).

RADIO 3
6.55 am Weather. 7.00 News. 7.05 Morning Concert (S). 8.00 News. 8.05 Morning Concert (continued). 9.00 News. 9.05 This Week's Composers (S). 10.00 BBC Northern Symphony Orchestra (S). 11.40 Flute, Oboe and Piano (S). 12.15 pm Tchaikovsky (S). 1.00 News. 1.05 BBC Lunchtime Concert (S). 2.05 Matinee Musicale (S). 3.05 New Records (S). 4.55 News. 5.00 Mainly for Pleasure (S). 6.30 Music for Organ (S). 7.00 Un Coeur Simple. 7.40 BBC Symphony Orchestra in Hong Kong (S). 8.25 My Merry Mornings. 8.45 BBC Symphony Orchestra (S). 9.45 Words. 9.50 The Medium. 10.45 Jazz in Britain (S). 11.15 News.

RADIO 4
6.00 am News Briefing. 6.10 Farming Week. 6.30 Today. 8.35 The Week on 4. 8.43 Miles Kington in the BBC Sound Archives. 9.00 News. 9.05 Start the Week with Richard Baker (S). 10.00 News. 10.02 A Small Country Living. 10.30 Daily Service. 10.45 Morning Story. 11.00 News. 11.03 Down Your Way. 11.48 Ad Hoc Cookery. 12.00 News. 12.02 pm You and Yours. 12.27 What Ho! Jeeves. 1.00 The World at One: News. 1.40 The Archers. 2.00 News. 2.02 Woman's Hour. 3.00 News. 3.02 Afternoon Theatre. 4.30 Makers of History (2). 4.40 Story Time. 5.00 PM. 6.00 News, including Financial Report. 6.30 The News Quiz (S). 7.00 News. 7.05 The Archers. 7.20 Start the Week with Richard Baker (S). 8.00 The Monday Play (S). 9.30 Kaleidoscope. 10.00 The World Tonight. 10.30 Science Now. 11.00 A Book at Bedtime. 11.15 The Financial World Tonight. 11.30 Today in Parliament. 12.00 News.

MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

Harry Addison: substitution of imports recognised by a Government award

How a tube bender took a turn for the better

Ian Rodger explains why Addison Tool exchanged importing for manufacturing

AS THE recession in industry deepened early in 1980, Addison Tool, a small private UK importer of tube bending machines—used mainly to make exhaust pipes for cars—pushed ahead with a surprising strategy to sustain its business.

It decided to manufacture its own exhaust pipe machines rather than import them, with the aim of exporting a significant proportion of its own output.

Two years later, group turnover is up by about 10 per cent to about £5.5m of which £2m comes from manufacturing. The company is breaking even despite having invested £1¾m on development and in setting up a factory. Exports already account for about a third of sales.

"Our business would normally have gone down during the recession," says Edward Addison, the chairman. "All our increase in turnover has come from the manufacturing side."

This is an astonishing achievement at a time when Britain's machine tool industry is increasingly giving ground to imports. The value of machine tools imported last year was £225m, 56 per cent of total UK consumption, compared with 30 per cent a decade earlier.

Addison's success was recognised early this year when the Government's Small Business Bureau selected it for a new award recognising its success in import substitution.

The key to the company's success lies mainly in its long experience as a distributor and thus its detailed knowledge of the UK market. Addison has been importing tube bending machines for 23 years and the directors' decision to plunge into manufacturing was based on their growing awareness in the late 1970s of demands in the market that were not being met with available products.

In particular, there was a need for a reasonably priced computer numerically controlled machine to make exhaust pipes.

Rapid set up

Partly because each car model takes a different exhaust pipe and partly because these items are awkward to store, average production runs of exhaust pipes for the important replacement market tend to be small—less than 100 in some cases.

Thus, setting times on manual bending machines takes up a very high proportion of total production time. CNC machines permit rapid set up—merely by changing the programme—and high levels of accuracy. But prices for CNC machines have been well beyond the means of many of the smaller makers of exhaust pipes for the replacement market.

As always, luck and timing played their parts as well. Late in 1978, Addison was becoming unhappy with Eaton Leonard, its main U.S. supplier of machines. In December 1978, a UK tube bending machine maker, Power Dynamics, went bust. Addison was asked by the Receiver to take over the business, in which the National Enterprise Board had held a one-third stake, but decided it would not be worthwhile.

However, it did take on four of Power Dynamics' engineers and their project to develop a CNC machine to bend very large pipes for shipyard, petrochemical and nuclear plant applications, although Addison's main interest remained in vehicle exhaust pipe machines.

The challenge was to develop a CNC machine at a reasonable price. Addison found a specialist engineer at Quinton Hazell, the automotive subsidiary of Burmah Oil that made its own exhaust pipe machines. Under his leadership, the group's engineering team soon concluded that advances in microprocessing and the development of non-volatile bubble memories made a low cost CNC machine possible and so a development programme was begun.

Meanwhile, a large CNC pipe bender project developed by the company was succeeding and the machine was demonstrated at a trade show late in 1980. Because of the recession, sales have been slow. Only five, worth from £120,000 to £250,000, have been sold so far. But Edward Addison is particularly proud of one order from the French nuclear plant contractor, Entrepose.

"The French don't buy anything British unless they absolutely have to," says Harry Addison, the managing director.

Then last July, Addison's CNC exhaust pipe makers were introduced. At £38,000 apiece, well below the price of the nearest competitive machine, they have been an immediate success. Over 30 have been sold so far and the group has orders for many more.

Addison spent about £1m on the development of its two machines, and another £¾m to set up a factory at Preston. The current order book is worth about £1m, sufficient to keep the factory busy for the rest of the year, and so the company is now spending another £¼m to increase potential capacity by 30 per cent.

Addison's machines are almost entirely British made. About 60 per cent of the components are bought in, but only 3 per cent are imported, mainly electronics from the U.S.

The company is now working on widening its range of bending machines. One new model is being developed for precision bending for the aerospace, automotive and hydraulic industries.

The group also aims to improve its financial performance. Edward Addison expects the group will make a small profit in the second half of this year and then make about £¼m next year.

That was the level of profits Addison was making in the late 1970s. But that was before it began manufacturing.

Profits: the great misconception

BY ARNOLD KRANSDORFF

MANAGERS are obviously still failing to educate the public about the realities of the business world.

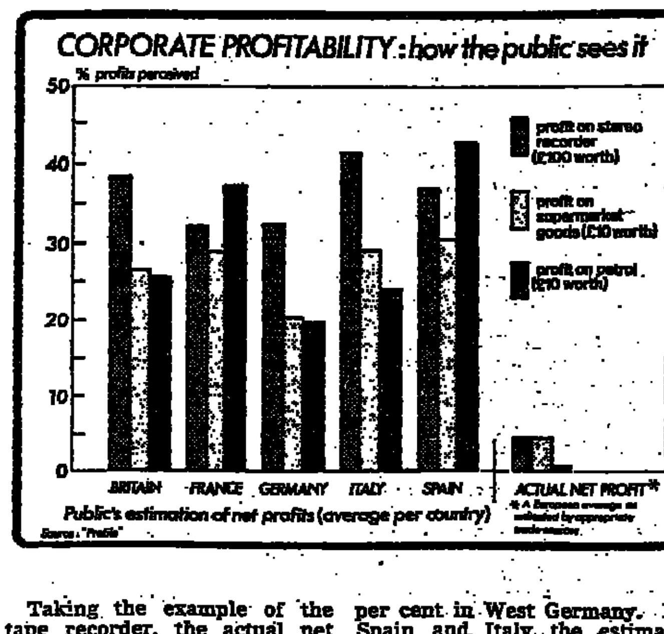
Most people think a company makes far more profit from its products than it really does. And among the most misinformed are the professional classes, including managers.

Across Europe, the public over-estimates corporate profits by up to 10 times. Only about 1 per cent correctly estimate manufacturers' margins on certain products.

These startling figures emerge from a new survey carried out for the International Telephone and Telegraph Corporation and published in the latest issue of ITT's "Profile" magazine*. The results have prompted the head of ITT in Europe to call on industry to improve its communications skills.

It hopes that national employers' organisations will be stimulated into doing something about it. "No one company can take this on by itself," it says, though it does intend to start a campaign through its 30-odd company newspapers across Europe "to inform our 180,000 employees of the economic realities of business life. Where we go from there depends on what reaction there is from others."

The study was carried out by Gallup in France, Italy, West Germany, Spain and the UK. In each of these countries about 1,000 people were asked to estimate a manufacturer's profits after tax as a percentage of the sales price of three items—a stereo tape recorder, a typical basket of supermarket goods and petrol.



Taking the example of the tape recorder, the actual net profit margin for a manufacturer of this product is roughly 5 per cent, although it is difficult to generalise across borders. Yet the average view in the UK was that the margin was 38 per cent. There was little difference in this estimate across the age spectrum, or among people who were working or unemployed or across class barriers. And among the professional and managerial classes, the average estimate was little better, at 38 per cent.

Rather than hazard a guess, more than a fifth of respondents admitted that they did not know.

The estimate throughout Western Europe varied little: 32 per cent in France and 33 per cent in West Germany. In Spain and Italy, the estimate was higher, at 37 per cent and 42 per cent respectively.

Taking all five countries, between 13 per cent (Spain) and 18 per cent (the UK) of people thought that the margin was between 50 per cent and 59 per cent.

The general public held a similarly unrealistic view of net profits in the food industry, which are probably less than 5 per cent.

West Germans thought the margin was 21 per cent, the British 27 per cent and the French 29 per cent. Italian and Spanish estimates were 29 per cent and 31 per cent respectively.

The public was equally wide of the mark over petrol. Spaniards thought the profit margin was 42 per cent, the French 37 per cent, the British 26 per cent and the German 20 per cent.

The integrated nature of activities in most oil companies makes a realistic assessment of margins difficult, but the most likely position is that petrol sales alone incur losses at the pump.

Accepting that petrol is a special case, the most obvious conclusion that can be drawn from the study is that the public is grossly unaware of business realities.

Says John Guilfoyle, president of ITT Europe: "The inevitable reaction of businessmen when confronted with these research results is one of disbelief.

"If we refuse to recognise the simple fact that business in general has done a lousy job of communicating the economic realities, we will never understand the difficulties which the misconceptions create.

"We are all frustrated by our apparent inability to get the public to understand that profits are necessary to permit investment for the future. Calls for increased investment, belt tightening and justifications for employee layoffs will win little sympathy, acceptance or understanding from a public whose conceptions are so far removed from reality.

"It is up to the business community to recognise that a problem exists and do something about it."

* "Profile" 27/82. *ITT Europe Inc., Avenue Louise 480, B-1050 Brussels, Belgium.*

Management abstracts

Who wants "flatter hierarchies" anyhow? J. W. Hunt in London Business School Journal (UK), Autumn 81

Sees signs that the move towards industrial democracy has ground to a halt; insists that this should not surprise anyone — other than behavioural scientists — since democracy is alien to industrial organisations, in which the elite need the hierarchy to remain the elite, the upwardly mobile need the hierarchy so that they can climb, and the majority know that, if one hierarchy is dismantled, another will take its place, so prefer to huddle together for security.

Diversification in the chemical industry. H. J. Schindler in Journal of International Marketing and Marketing Research (UK), Vol 6 No. 3

Distinguishes types of diversification, and lists objectives; considers in detail a procedure for planning and implementation; presents an evaluation sheet for a new product idea, and lists aspects to be considered when carrying out a market survey.

Design Education for Engineers. C. R. Chaplin and D. J. Beard in Chartered Mechanical Engineer (UK), Jan 1982.

Following a discussion of the training of engineers in product design, reports on collaboration between Reading University and Black and Decker (makers of electrical tools) in an undergraduate design-study project.

Planning for Uncertain Energy Supplies. M. G. Christopher and others in Business (U.S.A.), Nov.-Dec. 1981.

With special reference to the 1973 Arab oil embargo, discusses effects of uncertain energy supplies on operating costs and investments; reports on a survey of the energy policies/plans of North American and UK companies, and outlines the impact of an energy crisis on various industries.

Expatriate Employees. D. W. Kendall in Business Horizons (U.S.A.), Nov.-Dec. 1981.

Identifies adjustments that usually have to be made by employees (and their families) when they are transferred overseas and when they come home; suggests ingredients of a company policy on expatriates, e.g. ensuring that the personnel department includes people who have lived abroad.

Assessing Product Sales. W. T. Cummings and J. M. Daley in Business (U.S.A.), Nov.-Dec. 1981.

Extols the virtues of segmental analysis and product-portfolio analysis, used in tandem, for examining the performance of particular products and comparing sales growth rates; explains the techniques, and presents a glossary of terms.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at £2.50 each (including VAT and P and p; cash with order) from Anbar, PO Box 23, Wembley, HA9 8DJ.

TECHNOLOGY

BY ALAN CANE

Continuous casting of non-ferrous metals

Tiny furnace to suit the bullion dealer

BY MARK MEREDITH, SCOTTISH CORRESPONDENT

A SIGN of good breeding in the steel industry is its use of the efficient heat and labour-saving method of continuous casting.

But this system, so essential to the survival of the western world's steel factories with growing international oversupply and competition, has made much less impact on the production of other metals.

Continuous casting is a single process which takes molten metal from a furnace and casts it straight into basic shapes. This by-passes a stage in the traditional method in which molten metal is first formed into ingots and then later remelted to be cast into shapes.

The production demands of the non-ferrous metals are very different from steel. These metals are worth more and produced in smaller quantities.

Casting brass at £200 a tonne, bronze at £600 and more valuable metals such as gold and silver require controls which are much tighter and on a scale of production much smaller than steel.

Yet an Edinburgh company believes that continuous casting can be applied beneficially to these metals.

Operating from a cluttered office above a building society, the firm has produced a furnace roughly the size of a washing machine which is suited to the special requirement of precious metals and alloys.

Production is simplified to the point where raw metal dropped into a hole in the top and finished, cast metal emerging from a die at the front.

Mr John Ewen, the managing director of I. E. Ewen, has developed an idea created by his father for continuous casting in non-ferrous metals.

His furnaces are aimed at the secretive world of the bullion dealer who wants a tidy, closely controlled, all-in-one operation for a small workshop.

They are also designed for mints producing strips out of which coins can be punched. Recently the company has begun to market the furnace directly to mines where small amounts of precious metals are found mixed in with other ores.

The furnaces are specialised enough to be made one at a time and usually on site. Mr Ewen's small office is all there is to see of his company.

The technical problems for producers of non-ferrous metals in the past have included the large size of existing equipment. Furnaces hold only one tonne of metal and are really only economical when producing 1,000 tonnes a year.

A precious metal producer might measure his output at something like a tenth of that. The metal is often produced ounces at a time.

Leakage has traditionally plagued production. Metal seeps out into other parts of the casting machinery and when ounces count, there can often be a considerable difference between what goes in and what comes out.

Because clay cement is used in the manufacture of the crucible in which the metal is melted, traces of the metal can be absorbed into the crucible wall. Evaporation can also reduce the quantities of some metals in open cast systems exposed to the air.

Finally, conventional production systems using ingots and separate heating systems, require at least four men. Material and labour costs are high.

Mr Ewen believes his furnace cuts out many of these problems.

The dimensions of the Ewencast 100 are tailored to the needs of a company dealing in small amounts of metal. It holds only 100 kgs at a time.

Graphite heating elements can create temperatures of up to 1500 Centigrade. Metal can be melted down quickly—80 kgs in 15 minutes.

Heating and mixing metals into alloys or hadling a single metal type takes place in one unit. To ensure against leakages, the crucible is made from a single piece of graphite. The die is made from the same material and slotted into the crucible.

The use of non-wetting graphite eliminates any absorption of metal.

The small producer does not need elaborate conversion to his plant such as special foundations to hold the small furnaces.

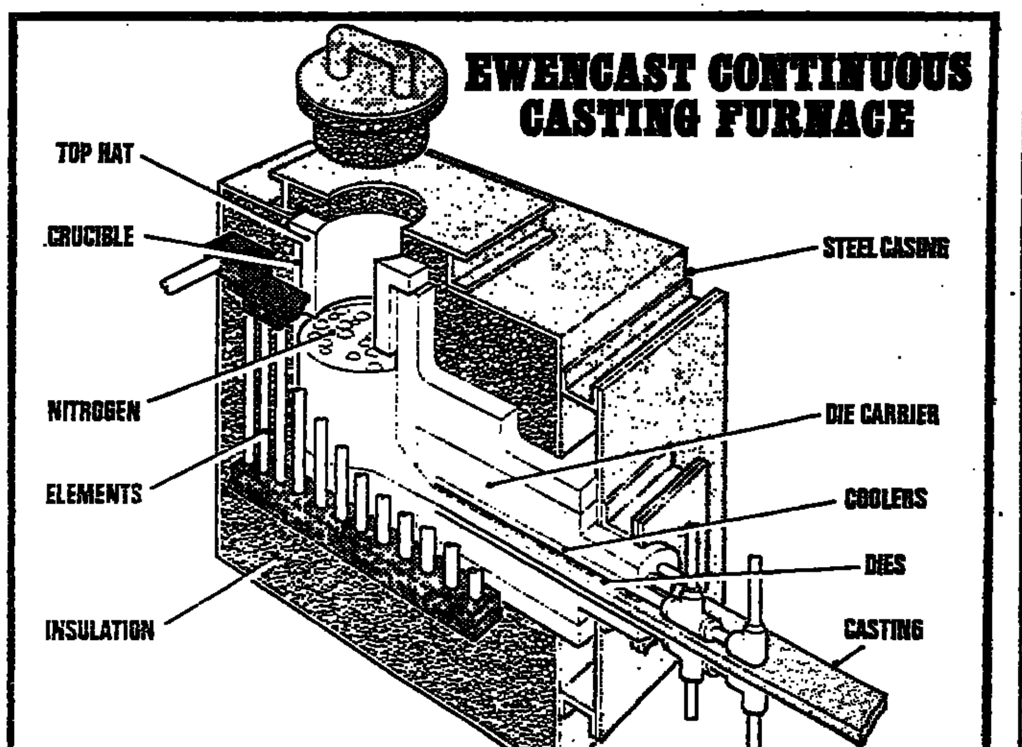
The furnace can also be operated by one man on a single shift. Machinery can be left in a stand-by position overnight or at weekends.

The metal is stirred by the injection of nitrogen into the crucible.

Mr Ewen reckons his furnace, using a maximum of 80 kilowatts, can run at about £1 an hour.

An ingenious system of moving cooling probes prolongs the life of the graphite dies. The system, developed at the Timex factory in Dundee and incorporated in the Ewen furnace, allow the operator to adjust and vary the point at which the metal "freezes" in the die. This is the point at which the wear on the die is at its most severe.

More information from I. E. Ewen, 12 Davidson's Mains, Edinburgh. 031 336 5020.



I. E. Ewen's casting furnace is only the size of a washing machine

Computer system to monitor London's public telephones

BT scheme to keep 11,000 Buzbys ringing

THE FRUSTRATION of hunting for a working public telephone box in London could be eased after the introduction this week of a computer system to monitor the capital's 11,000 public telephones.

The main use of the system will be to ensure that coinboxes are emptied—as frequently as six times a day—and to report jammed, dirty or damaged telephones.

British Telecom believes that its new computer system, called "All Change" will save about £3m a year and reduce dramatically the number of telephone kiosks out of order because of overfull coinboxes. About 400 kiosks a day do not work for this reason.

All Change was a joint project between British Telecom and Chapman Cash Processing, which developed the computer software and the special coin counting mechanism.

The computer system can deal with all kinds of boxes, including the new press-button electronic payphones, themselves computer controlled, which are programmed to indicate when their coinboxes are three quarters full.

The system is based on mini-computers which keep a record of each kiosk, its telephone number, the type of equipment, who is responsible for cleaning it, and, how often the cash is collected.

At collection time the Telecom collector marks a special card for each kiosk, noting its condition and other information and sends it with the sealed cash container to the All Change headquarters in West London.

This information is fed into the computer while the money is automatically counted and bagged.

The enormity of the problem in London is highlighted by the fact that the daily coin intake of all London's payphones is something over eight tons — amounting to about £380,000 a week. The CCP system is able to process all the money overnight. The coins are counted automatically at a speed of over 600 a minute.

At the same time the computer system produces statistical trends for each phone box and works out schedules and instructions to empty and repair the coinboxes.

CCP took only six months to design and instal the new system compared with other companies' estimates of three years. Workers at CCP worked through the night during the period to complete the job.

Chapman Cash Processing, CCP, is a small British company set up last year with funding amounting to £250,000 from Venture Founder Capital, a U.S. business investment company.

ELAINE WILLIAMS

Exhibition

Mesucora for control automation

THE EIGHTH Mesucora exhibition and congress will take place at the Porte de Versailles exhibition complex in Paris from December 6 to 11.

Held every three years, it is still one of the few truly international events covering measurement, control systems and automation.

It will be boosted this time by the coincident staging of Physique 82, the 70th French Physics Exhibition, and also of Elec, the electrical equipment show. During the same period there will also be a seminar arranged by the International Federation of Automated Control (IFAC).

More than 1,400 organisations will be exhibiting at Mesucora. Naturally enough, the French will have a strong presence with 566 stands, followed by the U.S. (334), West Germany (149) and the UK (142). There will be 24 countries represented altogether, including four from the Eastern European bloc led by the USSR and also from Japan and Israel.

The event will cover virtually every aspect of measurement, scientific and industrial instrumentation, process control and automation on a site covering 26,000 sq metres. The Mesucora Commissariate is at 40 Rue du Colisee, 75381 Paris (Paris 359 1030).

Telex

Transtel's new deal

JULY 1 marked the moment at which it became possible under the 1981 Telecommunications Act to supply telex machines privately on a sale or rental basis.

It was also the day on which Transtel, the Slough-based electronic telex machine maker, struck up an agreement with Telephone Rentals of Milton Keynes under which the latter will offer the former's machines on rental.

Keith Rushton, Transtel's managing director, describes the move as the first real opportunity since the act received Royal Assent "for the business user to break out of the grasp of the British Telecom monopoly."

Welding

Robot which learns

BRITISH Federal Welder of Dudley in the West Midlands has announced its latest robotic resistance welding system. It incorporates a basic "Fedman" S series robot with options of up to six axes, CNC control with teach facility and programmable welding controls.

British Federal says that it offers an alternative to the articulated arm system while the flexibility of the design allows "C" type guns from 600 to 1,200mm reach to be employed. Positional accuracy of plus or minus 0.4mm is achieved by a dc closed loop servo-drive.

British Federal is on 0384 54701.

Instruments

New digital analyser

A DIGITAL signal analyser for use by mechanical and control system designers has been introduced by Hewlett-Packard, Wokingham, Berkshire.

Its potential market covers a wide range of applications from the design of chain saws to heavy machinery and aircraft, the company claims.

Quality control

Instron's tester

INSTRON has introduced a low cost, testing machine for precision testing in quality control and high volume production testing.

The model 1000 has a maximum load capacity of 5kN and a variable testing speed range between 1mm/min and 500mm/min. It can be used to test tension, compression, shear and flexure. More on 0525 382444.

THE ARTS

Architecture/Colin Amery

New ideas for Kew

By any standards this is a good time for architecture. With London traffic immobilised there are enormous compensations for all those forced to walk three or four miles to their offices and taste the city from the street, where the scale of the rebuilding of London can be experienced.

It is salutary to realise how little has been done for the pedestrian and how mean are the environmental standards of subways and underpasses and the token improvements in streets like Oxford Street. Wider pavements and trees in concrete tubs are scarcely enough for a street that considers itself one of the centres of European shopping. Struggling through the West End is more reminiscent of a steamy afternoon in Port Said than a calm walk through an ancient capital.

At the Royal Institute of British Architects an aged Berthold Lubetkin, who has been out of the architectural game for the last 30 years, took advantage of his long exile to attack almost everyone as he received the long overdue honour of the Royal Gold Medal for architecture.

He called for a return to scientific rationalism and deplored the current mood of anarchic experiment in architecture. Lubetkin agreed with Norman Mailer that the architecture of the past 20 years "has to be the worst architecture in the history of the world." He did not feel this was a matter of aesthetics; it was more a question of the art of architecture not only reflecting but also celebrating a civilisation "on the brink of self-destruction all the way from Waikiki to Minsk."

Understandably in an architect who has not practised for 30 years and who resigned from the post of chief architect to Peterlee New Town because of frustration with bureaucracy, Lubetkin had little to say about the failure of the Modern Movement to change society. Instead he attacked the recent movements towards what he called "transvestite architecture": any recognition of what he considers vernacular revival he saw as danger signals. No one would disagree with this old modern master that what architecture partly consists of is "classical calm, order, logic and lucidity," but it is also about inspiration, romance and an instinctive understanding of beauty.

One generation of architects will rejoice in this restatement of old values by a former revolutionary; others will take a more tolerant view of the period of experiment that we are presently enjoying. To change it is necessary to explore. Lubetkin was free to carry out his exciting experiments in England because of a tolerance that exists nowhere else. It is sad that his wit and learning do not let him extend tolerance to the struggles of the uncertain architects of today.

A more tolerant and reasonable approach to architecture was to be found later in the week when the results were announced of the Government's competition to find a design for a new building in Kew Gardens. There was a huge entry: 270 architects submitted designs for a building to house the Reference Collection with its connected offices, library and public exhibition space. The site for the new building is north of Broadwalk with Kew Palace close by to the west. Almost on the site is the little building by John Nash which came from Buckingham Palace and is now the Aroid House.

Kew Gardens has been fortunate in its architects. Sir William Chambers and Decimus Burton both did good work there and Chambers particularly had an understanding of the spirit of the gardens. The gardens as we see them today date from both the mid-eighteenth century and the mid-nineteenth century. At both stages Kew embraced both buildings and landscape. It is a wonderful example of what the English architectural genius is about (which Mr Lubetkin will never understand), an awareness of the rational and an infusion of the picturesque. Botanical science is conducted at Kew in a place that at the same time demonstrates the magic of plants and trees.

To find a winning scheme from the entries to this important competition the three wise men: Lord Gibson, Sir Philip Dowson and Professor Bell (Director of the Royal Botanic Garden), went to enormous trouble to advise the Secretary of State.

They have done a sterling job and went to the appropriate lengths of examining the short list of schemes on the site. This was a single stage competition and the winner, Manning Clamp and Partners of Richmond, has produced an imaginative and promising addition to the subtle landscape of the gardens. Perhaps it was because it is a local company, or because it recently restored the Temperate House, that the winning scheme shows a love and knowledge of the gardens.

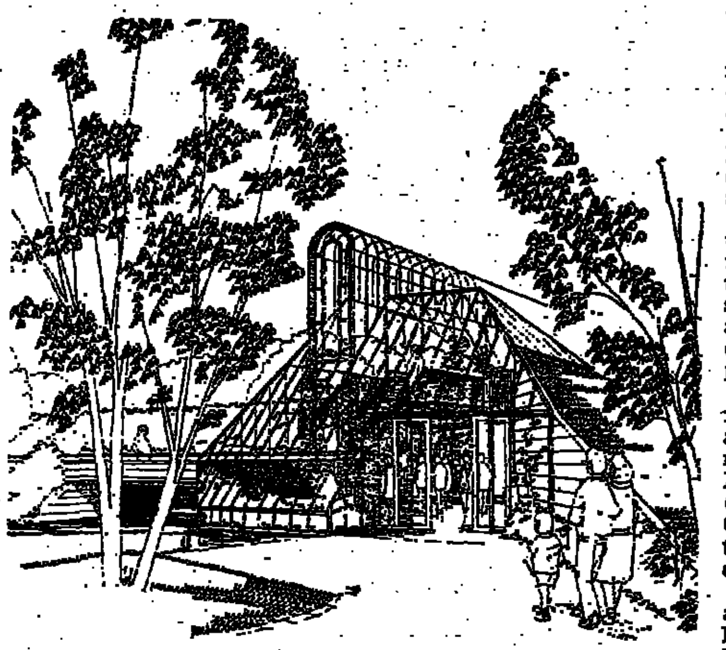
The advisor's remarks about the competition are worth noting. They mention their surprise that so few of the entries were able to catch the spirit of Kew. "Many schemes were too big and complicated, lacking calmness and simple elegance . . . they could have been community centres or schools and would have diminished Kew Palace." They also make an important point about single stage competitions.

It would be useful to juries if they could meet and discuss (without prejudice) the designers of the short list of entries. While this would remove any anonymity, it would also help to clarify proposals.

The winning scheme is commended for its integration with the landscape. Much of the building is underground or concealed by banking, water and trees. At the same time, the architectural elements follow the Kew tradition of being largely curved and glazed and conservatory-like. Manning Clamp and Partners carefully separated the public and private parts of the scheme.

In the second and third prize-winning schemes the approach was far more that of making an architectural statement. The second prize winners, Liverpool architects Colin Leisk, Nicholas Suslak and David King, produced a subtle piece of geometry — two intersecting pavilions of sharply-angled planes. The third prize went to a large spirograph dome made of plywood and stainless steel by architects in London, Jones and Dennis. This was by far the boldest solution — a very clear concept with the domed building standing up on a mound and surrounded by a moat. The judges were, I think, a little frightened by the scale of the dome in the gardens, although the idea puts it into the Kew pagoda class.

The results of this competition will be exhibited at the Banqueting House in Whitehall with a selection of the schemes that did not reach the finals. The exhibition will be on show in late July. I hope that the designs can also be shown for a while at Kew and that we can also see the work submitted by several of the most distinguished firms in the country which failed to win.



Conservatory qualities of the new exhibition building at Kew Gardens by competition winners Manning and Clamp

The Beggar's Opera/Cottesloe

Michael Coveney

"The good men do is oft interred with their bones" and I have long thought the same to be true of *The Beggar's Opera*. The biggest theatrical hit of the 18th century started a vogue for ballad opera that was killed off 10 years later (in 1737) by the Lord Chamberlain's licensing act. It was a dangerous genre of moral inversions, seathing satire and street music.

No revival can nowadays make much of the attacks on the government, the allusions to the informer Jonathan Wild, the rivalry between Walpole's wife and mistress invoked in the warring arias of Polly Peachum and Lucy Lockit. What can be achieved, and is achieved in Richard Eyre's beautiful, smokily Hogarthian production for the National Theatre, is a free flow of expressively emotional content between the brief musical items and the spirited dialogue and a coherent, colourful picture of Newgate society where the transaction of a life is as casually undertaken as the sale of a piece of cloth.

There are many precedents, from Linley and Addison to Bliss and Britten, for adapting the original score, for which no orchestral parts survive. The great virtue of Dominic Muldowney's arrangements is twofold: the monotonously predominant triple time of each snippet is cleverly disguised by interesting rhythmic variants; and the threadbare tedium of the traditional fiddle and harpsichord accompaniment quite banished in the ingeniously deft colourations for clarinet, mandolin, guitar, concertina and psaltery.

Nor is there any of the usual embarrassment (as in the last Lyric Hammersmith revival) of modern singers caterwauling in a forgotten idom. Paul Jones is a splendid, Glaswegian Macheath and his lovers are spiritedly played and superbly sung by Belinda Sinclair and Imelda Staunton. This trio investigate all the emotional corners of the tale with a natural aplomb whether acting or warbling or, as is usually the case, acting and warbling. They are well supported by Harry Towb and, especially, David Ryall as the paternal representatives of interlocked, corrupt judicial interests.

There is nothing remarkable now about the dramatic moral of the destitute being as cravenly dishonest as the rich, nor does Mr Eyre's production bother to quarrel with the perfunctory conclusion.

John Gunter has designed a wooden structure with upper level that is inventively inhabited by gamblers, whores and peering gaolers. There is nothing coy — quite the reverse — about the description of rampant sexuality and there are eye-catching cameos from Kevin Williams as the disastrously clumsy attendant Filch (a nice complement, this, to his haughtily camp waiter in *Guys and Dolls*) and Fiona Hendley as a sly Jenny Driver with a tingling soprano.

Paul Jones, Belinda Sinclair (centre) and Imelda Staunton

Stravinsky/Cheltenham

Max Loppert

Several themes run through the programme of the 1982 Cheltenham Festival which, at least on paper, looks the most attractive and imaginately devised for some years. The appearance (until the last minute not ensured without cliffhanging obstacles) of the Warsaw Chamber Opera is one; and its performances must have a later notice to themselves. The Stravinsky centenary is another, probably the most dominant, touching most of the morning chamber concerts and establishing a symphonic beach head at both the opening and closing orchestral concerts of the fortnight.

It is a pity that (except, of course, by the ever-inventive English Bach Festival) the centennial excuse has not this year been more boldly used to redress the genuine cases of neglect that still lurk in corners of the composer's canon—am I the only person in Britain longing to hear once again a live account of *Persephone* or *Threni*? If the brief for the BBC Northern Symphony, in Saturday's opening concert under Irwin Hoffman, included neither of these its offer of the Symphony in C, hardly more often played, was all the same most gladly accepted.

It cannot have been merely its placing immediately after the première of an undemanding bright-coloured and well-made Essay (Janacek crossed with Stravinsky and flavoured with a dash of Tippett) by Stephen Dodgson that made the Symphony in C seem more than ever one of the supreme Stravinsky masterpieces.

Acute in matter of tempo choice even if the cruelly exposed character of the instrumental groupings was not always cleanly mastered, the reading itself had wit, energy, and discipline.

Stravinsky, flanked by a handful of almost unknown Russian composers from the early-Modernist phase of the revolutionary period, figured in the enterprising song recital that Jane Manning and her pianist Tony Hymas gave at the Pittville Pump Room yesterday morning.

After the alluring but blurred outlines of Rozlavetz's Four Compositions—and the bizarre mystical experiments of Obukhov's Four Balmont Songs, Stravinsky's Four Russian Songs cleared the air like a gust of morning breeze.

Nash Ensemble/Wigmore Hall

Andrew Clements

It has taken nine months, since the first performance at last year's Huddersfield Contemporary Music Festival, for Harrison Birtwistle's clarinet quintet to reach London. It formed the centrepiece in the last of the Nash Ensemble's short series of summer concerts in the Wigmore Hall on Saturday. The Huddersfield première was given by Alan Hacker and The Music Party, who commissioned the quintet; this time the clarinettist was Antony Pay, a less astringent but equally incisive player who was notably more successful in focusing the low-register writing in the work.

The clearer outlines of the clarinet part, as well as the greater security of the Nash strings, gave this performance a much crisper profile. The first encounter with the quintet was, for this listener at least, perplexing; not so much in its finer detail, which throws up familiar Birtwistle gestures, but in its topography — in the ways in which statement and development are mingled and interconnected.

Now at least some of the connective tissue can be teased out. The long-range tonal plan is also clear: a work that never strays far from a pitch centre of D and which draws around it other pitches to set up a kind of hierarchy.

Individual blocks of material and their varied restatements stuck more firmly in the mind: clarinet lines that recall but do not behave like the non-retrogradable melodies of Messiaen; a clarinet melisma that seems to have come straight out of *Le Sacre du printemps*, a pawky, constricted tune that surfaces once only to disappear for ever; intricate webs of sliding, shivering strings through which the clarinet must pick its way.

In a programme of chamber music—around it on Saturday the Nash grouped a Haydn flute trio and the Schubert octet in typically boisterous accounts that carefully balanced style and wit—the Birtwistle was almost discomfiting.

The title is accurate but deceptive, for this clarinet quintet is descended from larger-scale works in the composer's output, from *Melencolia I*, for clarinet and string orchestra especially; its gestures and the open-ended processes look towards those bigger canvases. If its shape and manner of growth remain elusive, it is certainly a major addition to the repertory and a work that will repay many fascinated rehearings.

*

Six days earlier, the second concert in the Nash's series had included two recent works by British composers written for the group, by Nicholas Maw (his flute quartet) and Simon Bainbridge. Bainbridge's *Voicing* for piano, wind quintet and string quintet, was commissioned for the series. It is an attempt to merge such a heterogeneous ensemble into "one homogeneous sound world where no solo instrument predominates."

The result begins by suggesting Steve Reich, though without the "process" of a work like *Music for 18 Musicians*. Sustained by a regular thrumming pulse, the ensemble builds a thick texture by overlap and superposition and the tempo moves through several gears until the texture finally dissolves into a mass of highly decorated solo lines after the manner of the trumpet and piano flares in *Petrushka*.

The change from one "vertical" kind of homogeneity to another that is "horizontal" is momentarily effective, but for all its canny textures the piece seems unfinished and inconsequential.

Maw's flute quartet is altogether more satisfying, though still problematic. There is certainly weight in the pensive, central slow movement, weight that is happily denied by the frothy, Haydnesque finale; the first movement, a lazy pastorale mostly with darker episodes, is less sure-footed. As a work intended for the Nash Ensemble and especially for the group's flautist, Judith Pearce, it is, however, perfectly judged.

Grainger centenary/Elizabeth Hall

Dominic Gill

On the face of it, the Songmakers' Almanac recipe of words and music—wedding literary and historical context closely to the work—promised to be the most illuminating of all possible concert treatments of the complicated, quirky, inspired near-genius of the Australian composer Percy Grainger, who was born in Melbourne a century ago next Thursday.

For once, in the unusual case of Grainger, since the person and the ideas, the life and the context, are beyond argument so much more interesting than the music, a preponderance of words and narrations would have been both welcome and justified. What we got on Friday night was a compromise, which really only scratched the surface of the Grainger phenomenon: and with it, a great preponderance of the "dishing up" of folksong with Grainger, for all his lively unsentimentality, confused with (in that he considered it an adequate representation of) the real and living article.

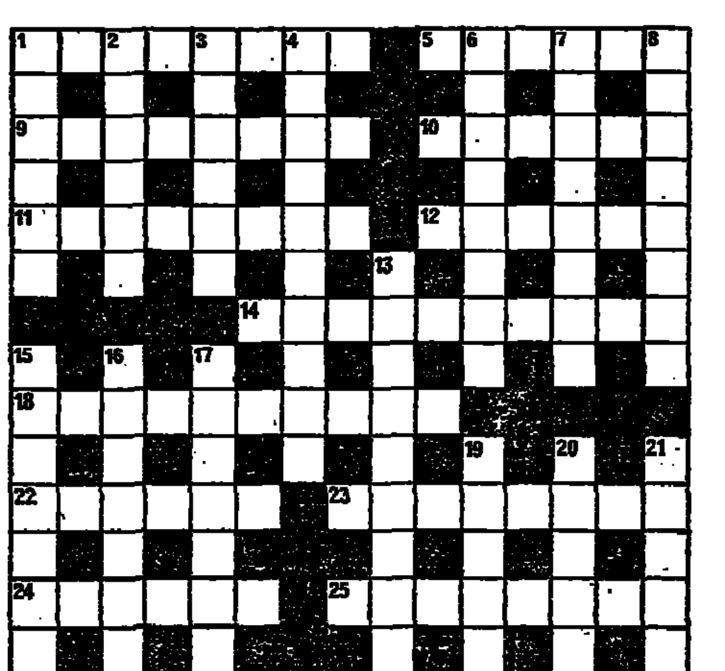
Some of the folksong settings are effective enough: Grainger significantly outgrew the refined English drawing-room ballad style of his friends and contemporaries Roger Quilter and Cyril Scott, and his best settings — such as the deft and magical "Six dukes went afishin" or the splendid narrative "Bold William Taylor" — are folk transcriptions of real poignancy.

But 17 Grainger folk arrangements, not to speak of a half-dozen by his contemporaries, made for a fairly long haul before we arrived at the concert's final section entitled "The Essential Grainger?" — an apposite question mark, since the section was devoted to a fragment only of the machine-performed *Free Music II*.

The evening's sketch was not without its happy moments—notably the use of Grainger's own recorded voice and his own piano playing

But too many basic questions remained unasked, or unanswered. Eccentric failure, or inspired prophet of the avant garde?—and especially, what extraordinary quality of Grainger's was it (patently not his musical production alone) which inspired such devotion from Busoni, Delius and Grieg, men of far greater musical genius"

F.T. CROSSWORD PUZZLE No. 4,914



ACROSS

1 Steer to entice in disdain (8)

5 Bird disliked by soldiers? (6)

9 Remove an off-print (8)

10 A continental near relative (6)

11 Short musical drama to repeat badly (8)

12 Lather mixed for an old German coin (6)

14 Left because of obstinate sweethearts' quarrel (6, 4)

18 Half of former capital divided (4, 6)

22 Finish in attempt to be fashionable (6)

23 Meaning to enrol a visionary (8)

24 Article is in red and in relief (6)

25 Knitted jacket from town in Dyfed (8)

26 Ambassador for example, gets delayed outside (6)

27 Secret taught to a select few (8)

DOWN

1 Type of oil for a type of wheel (6)

2 A small drink for each little boy (6)

3 One who brings in the money could be nearer (6)

4 Biscuits for small French afternoon snack (5, 5)

6 Abnormal irritability seen before this Frenchman (8)

7 Deplore article put into service (8)

8 The art of composition from bird on boat (8)

13 Where cocktail shakers and prisoners may be seen (6, 4)

15 Late crop possibly coming from the heart (8)

16 Employing her inside for conducting (8)

17 Ready to do as one is told—as a servant may be? (8)

19 Outlaw bachelor together with sex-appeal (6)

20 An Australian gardener (6)

21 Debilitated by a medicine? (6)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

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Monday July 5 1982

Right to run British Rail

LAST WEEK the management of British Rail decided — in our view rightly—that the time for compromise with Aslef, the train drivers' union, was over. Despite the union's apparent willingness to consider an experiment with flexible rostering, the Board was not prepared for yet more negotiations which, on the basis of past experience, would probably have led nowhere.

The British Railways Board is determined to assert its right to manage. The conditions for doing so could hardly be more propitious. It has the government and public opinion firmly behind it. Its plans for flexible rostering have been upheld by Lord McCarthy's arbitration tribunal. There must be some doubt, to put it no higher, about the stomach of the Aslef rank and file for a long strike.

The "showdown" approach to industrial relations can often blow up in management's face; even if it succeeds, it is no guarantee of lasting improvement. But there are situations when it is unavoidable. Behind the argument over flexible rostering is Aslef's record of obstructiveness in defence of status quo, reinforced by its ability to bring the industry to a halt. Until Aslef members and through them the executive are persuaded that behaviour of this kind does not pay, there can be no secure future for the railway.

Common ground

THE ELECTION of Mr Roy Jenkins as Leader of the Social Democratic Party puts the Liberal-SDP Alliance back on track: that is, about where it might have been expected to be had the Falklands crisis not intervened at the beginning of April. Mr Jenkins is now well placed to press ahead with the development of the Alliance, of joint policies with the Liberals and perhaps even a joint manifesto.

It is not that we have any criticism of his rival in the contest, Dr David Owen. Apart from considerable qualities in his own right, Dr Owen had the added attraction of allowing voters the possibility of skipping a generation and electing a leader not unduly conditioned by the war and the early post-war period. Dr Owen might also have led a rather more radical party than Mr Jenkins.

Yet in Mr Jenkins's case time is of the essence. So is the formation of the Alliance. It is the next general election that matters if he and it are to make their mark. It is very difficult to imagine Mr Jenkins remaining as Prime Minister-in-waiting in (say) 1988 or 1989. And if the Alliance is not cemented soon, it is quite possible that the Liberal and the Social Democrats will go their separate ways. Mr Jenkins is a bold man who has staked a great deal: in seeking the realignment of British politics in the first place, in standing in unlikely by-elections, and in winning the leadership.

It should not be forgotten, however, that during the short history of the Social Democrats much has changed. The Labour Party has gone into what may be terminal decline. The Conservative Party has survived its difficult years in office since 1979 to the point where it is now talking with renewed confidence of securing a second term.

None of that was inevitable. The Labour Party allowed itself to become bogged down in its own internal, organisational problems. The Conservatives made some initial mistakes, but where they have scored is in helping fundamentally to change the climate of opinion. Only the Left-wing of the Labour Party talks nowadays about the need for much greater State intervention, further nationalisation and more economic controls.

The lecture by Sir Geoffrey Howe, the Chancellor of the Exchequer, at the weekend was the most conspicious example of the way the Government is beginning to edge towards a further liberalisation of the economy.

One of the attractions of the Social Democrats is that they seem to share these views. They believe more in the forces of the market than in state democracy and place greater emphasis on the freedom of the individual than on the near-compulsion sometimes exercised by the trade unions. Their additional merit might lie in adding an element of compassion.

Nothing in British politics can be certain, especially given the nature of the electoral system. But the idea of a debate between the Alliance and the Conservatives over the future of this country in the next two years is wholly welcome. Between them they have come to occupy the common ground of a good two thirds of the electorate.

Shultz's task

ACCORDING to President Reagan, the departure of Mr Alexander Haig from the State Department and his replacement by Mr George Shultz, does not presage any shift in American foreign policy, because that policy emanates from the Oval Office in the White House. If this were to prove strictly true, it would be regrettable, since there are a number of aspects of U.S. foreign policy which are urgently in need of reassessment. Indeed, some people on this side of the Atlantic would go so far as to say that the accumulation of causes of friction between the U.S. and Europe is beginning to reach dangerous proportions.

In one respect—the tone and style of foreign policy formulation—change is almost inevitable, and may well be a change for the better. In contrast with Mr Haig's prickly and contentious view of his position and its prerogatives, Mr Schultz is generally characterised as a team player.

In itself, the minimisation of gratuitous bureaucratic squabbling would be a significant step forward. But the more important question is whether a change of style will also be accompanied by a change of substance.

The most worrying issue of substance is the President's recent decision to extend and intensify measures for blocking the export of equipment required for the planned Soviet pipeline designed to carry gas to Western Europe. This move has caused serious irritation in Europe, because the transatlantic argument over East-West trade in general and the pipeline in particular seemed to have been calmed down at the recent Versailles summit, and this sudden reversal can only cast the gravest doubts on whether the U.S. is a reliable interlocutor on issues of policy.

Justification

More serious than the deprivation of American components for gas turbines—with some delay, substitutes can no doubt be produced in western Europe or even in the Soviet Union—is the thinking behind the American embargo. When it was imposed last December, it was justified as a retaliation for the crackdown in Poland. Now it is being rationalised by the President on two quite different grounds: Europe must be prevented from becoming too dependent on Soviet energy, and the deprivation or delay in foreign exchange earnings from sales of gas to Western Europe will seriously damage the Soviet economy.

Undoubtedly, the Soviet Union needs large quantities of foreign exchange, and undoubtedly its economy is in difficulties. But there is little reason to imagine that a policy of economic warfare will bring about any of those changes in domestic or foreign Soviet policy which the Reagan administration would like to see;

Mrs Thatcher is not normally accused of being soft on Communism, and Britain does not need Soviet gas; but when the British government moves ahead of its European partners to thwart the American embargo, it is time for the U.S. administration to take notice.

Disturbing

Washington's tacit endorsement of Israel's actions in Lebanon is equally disturbing. Not merely can there be no military solution to the Palestinian problem, the U.S. is ostensibly committed to the Camp David peace process which requires diplomacy and politics to take precedence over force. The Reagan Administration is worried about Europe becoming too dependent on Soviet gas. But it is already too dependant on Arab oil, the threat of disruption in the flow will be enhanced if Mr Begin creates a new generation of Palestinian terrorists, or if America alienates the moderate Arab states.

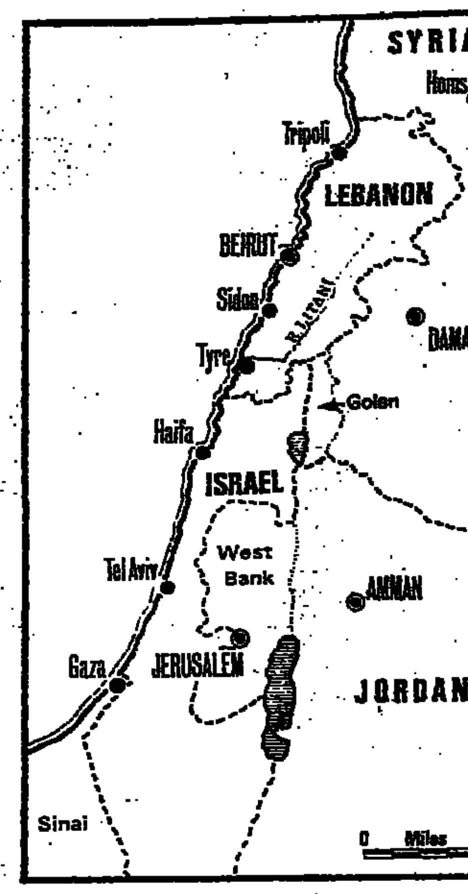
Alexander Haig was regarded by some as Europe's only true friend in the U.S. administration. George Shultz's advantage is that he is an economist rather than a former general, and perhaps he can persuade President Reagan of some of the facts of interdependence.

PALESTINE LIBERATION ORGANISATION

Defiance in the face of defeat

By Roger Matthews, Middle East Editor

Yassar Arafat, the PLO leader, touring battle lines south of Beirut



ISRAEL has in the past four weeks largely fulfilled its ambition to crush the military arm of the Palestine Liberation Organisation. The process will be complete, it believes, when the 6,000 PLO guerrillas trapped in west Beirut by the invasion of Lebanon are ejected from the country or destroyed.

It is much less likely to be successful in silencing the demand for a Palestinian state which has been at the core of Middle East political strife for several decades.

Gen Ariel Sharon, Israel's Minister of Defence, summed up what he considered to be his army's recent achievements when interviewed on June 25 on Israeli television: "We are close to achieving a state of calm on the Lebanese front, to a state of achieving those objectives we set out to achieve, the main and chief objective being the destruction of the PLO and the destruction of the terrorist force in Lebanon."

Asked if it was possible to annihilate the PLO militarily, Gen Sharon replied firmly: "It is possible to deal a lethal blow to the PLO."

Four days later, Mr Menahem Begin, Israel's Prime Minister, said during a speech to the Knesset that he did not wish to humiliate the terrorists because they were human beings, "although they do not deserve either pity or respect because they are base murderers. There is no doubt about it, especially that man who grows hair on his face [Mr Yasser Arafat, chairman of the PLO]: he is base, he is a murderer of children."

However, the 6,000 men coralled in west Beirut comprise only about 0.15 per cent of the estimated 4m people who would claim to be Palestinian. Together with Mr Arafat and other members of the PLO leadership they are principally responsible for articulating the demands of the Palestinian people, for organising the armed struggle against Israel and for representing the movement in the Arab world and internationally.

Their success can be judged by the cost in lives and property Israel is willing to inflict in order to destroy them. Israel believes that the aims of the PLO, as enshrined in the Palestinian National Covenant approved by the first Palestine National Congress in 1964, are basically incompatible with the survival of the State of Israel—that this is a terminal struggle between two peoples over the right to live in one tiny strip of Middle Eastern territory.

The battle for Palestine erupted after the Second World War when an exhausted Britain lost the will to find an acceptable political solution to its mandated territory. In the next three decades the newly-created State of Israel won every battle it fought and each victory brought a further dispersal of Arabs from Palestine.

They have spread widely throughout the Arab countries but remain heavily concentrated on and around the territory which they claim is rightfully theirs.

Some 600,000 Palestinian Arabs live within Israel proper and are citizens of the state created in 1948. Another 1.2m live under Israeli occupation in the West Bank and Gaza, which was overrun by Israel in the 1967 war. Over 1m reside in Jordan. There are probably 300,000 in Syria, 250,000 in Kuwait and sizeable communities in other Arab nations. Another 500,000 live in Lebanon, where they are now having their first taste of Israeli occupation.

Nearly 1.89m Palestinians are registered with the United Nations Relief and Works Agency as refugees, of whom about 35 per cent still live in 61 camps. UNRWA employs nearly 17,000 people, mainly Palestinians, to work with the refugees and its budget requirements for 1982 were estimated at $265m.

It is impossible to assess how many members of the Palestinian diaspora wish to return to their homeland; but few, if any, would oppose the idea of a Palestinian state. Certainly the overwhelming majority in the West Bank and Gaza want an end to Israel's 15-year occupation and the opportunity to exercise self-determination.

It has been the articulation of those desires, political and military, which over the past two decades has caused such controversy and turmoil in the region.

The PLO burst upon the world during the late 1960s and early 1970s. The violence of its early international actions earned it the terrorist label which still dominates the public mind in many western countries.

It sought also to influence Arab regimes and none more than that of Jordan where the large guerrilla presence eventually became a direct challenge to the authority of King Hussein. The threat of the PLO's emergence as a state within a state provoked him into military action and in 1971 the PLO guerrillas were finally ejected from the kingdom. Three years later the Arab summit at Rabat recognised the PLO as "the sole legitimate representative of the Palestinian people."

Meanwhile, most guerrillas had fled to Lebanon where there was already tension between PLO forces and the government. There had been an attempt to regulate the Palestinian presence by the 1969 Cairo agreement which was hammered out after talks between the Lebanese, Egyptians and PLO leaders.

The Cairo agreement was unable to withstand the strain of substantially more PLO guerrillas arriving from Jordan. Their presence in turn injected another, and perhaps critical, wedge into the split which had been appearing between the Moslem and Christian communities in Lebanon.

The delicate balance collapsed, pushing the country into the disastrous 1975-76 civil war from which it has never recovered. The intervention of the Syrians—initially to check the Palestinians and their Leftist Moslem allies and later to restrain the pro-Israeli moves of Maronite Christian militias—halted the worst of the fighting but did nothing towards re-establishing a workable political system.

In the political chaos that remained, the PLO was able to establish its own state within sovereign country with greater success than ever before.

> Militarily, the PLO has already been crushed and many of its guerrillas killed or captured

The PLO was able to run its own centralised bureaucracy, its own hospitals, schools, police force, factories, ports, radio stations, newspapers and, of course, its own army. The Lebanon, like Jordan, was also used as a military platform to launch attacks across the border into Israel.

The military aspect of the PLO struggle had, however, been overtaken in the past two years by the successful emphasis which Mr Arafat placed on diplomacy. The pace at which the PLO was permitted to open offices around the world, the growing support it received at the United Nations and the willingness of Western nations to advocate Palestinian self-determination on the West Bank and Gaza, were testaments to Mr Arafat's achievements.

But the relative freedom Mr Arafat enjoyed in Lebanon did not disguise the divisions within the PLO—which are frequently a mirror of those which exist between different Arab states—and the contradiction implicit in Mr Arafat's approach and the goals of the PLO as set out in the National Covenant.

These were highlighted by Mr Arafat's tempered enthusiasm for the eight-point Middle East peace plan proposed last summer by the then Crown Prince Fahd of Saudi Arabia. The proposal implied acceptance of a Palestinian state on the West Bank and Gaza in return for Arab recognition of Israel. The Palestine National Covenant, however, talks about the "liberation" of all Palestine and only allowing those Jews to remain who were in residence before the "Zionist invasion."

Israel, not unnaturally, emphasises this aspect. It refuses to treat with an organisation which is ideologically committed to the destruction of the Jewish state. The hardline Arab states which fund individual organisations under the PLO umbrella appear unwilling to accept any significant changes to the covenant.

Mr Arafat's position has been more ambiguous. He heads al-Fatah, which claims to be 80 per cent of the PLO and in Lebanon has exercised some degree of independence, while balancing between the military proximity of Syria and the less obvious financial pressures of Saudi Arabia and the other oil states which provide a large part of his estimated $1bn a year budget.

Lord Carrington, when he was British Foreign Secretary, along with European counterparts had been privately urging Mr Arafat to recognise Israel's right of existence and thus in effect unilaterally renounce the covenant. The Arab summit last November foundered on precisely this implication and the Saudi peace plan was shelved amid sharp Arab divisions.

Whether Mr Arafat really believed in it or not is open to debate. He and other Palestinians argue passionately that recognition of Israel is the only card they have to play; to discard it while Israel continues to build more settlements on the West Bank and Gaza and shows every indication of wishing to annex the territory, would be diplomatic suicide. There is little doubt that Mr Arafat would trade a great deal for a West Bank-Gaza state.

Israel's invasion of Lebanon and its declared intentions of dealing a lethal blow to the PLO have temporarily made these arguments academic. Militarily, the PLO has already been crushed and many of its guerrillas killed or captured. Politically it faces agonising choices. The PLO knows that it is not wanted in any Arab country and that any reluctant host will impose its own political conditions and severe military restrictions.

Syria would demand adherence to the "rejectionist" line. Egypt would look for acceptance of the Camp David approach. King Hussein would fear a return to pre-1971 and non-Arab Iran would insist on the Islamic nature of the Palestinian demands.

Meanwhile the Palestinians suspect that the crushing of the PLO is part of a larger Israeli objective to incorporate the West Bank and Gaza within the internationally-declared borders of Israel.

Israel has already started to promote "village leagues" in the West Bank and Gaza in opposition to the elected mayors who support the PLO. Most Palestinians dismiss those few who have been tempted to co-operate with Israel in setting up the leagues as "quislings."

But it is no more possible to judge precisely the extent to which the PLO does represent the Palestinian people than it was to know whether Mr Robert Mugabe's Zanu PF party was the one wanted by the majority of Zimbabweans before the first free elections.

Isreal appears determined to prevent the PLO ever being put to the test. It has also probably guaranteed that the Palestine National Covenant will not be amended for many years. The invasion of Lebanon looks so far to have been a triumph for those who reject all compromise. But there is nothing to suggest it will have done anything to moderate or quell Palestinian demands for what they and many others consider to be their legitimate rights.

Men & Matters

King's accession

Fung King Hey is one of that select group of Hong Kong entrepreneurs whose rags-to-riches careers have made them local folk heroes. But the chairman of Sun Hung Kai Bank, and Sun Hung Kai Securities, the colony's biggest stockbroking firm which he recently allied with Merrill Lynch, has always seemed a more elusive character than his multimillionaire peers like shipowner Sir Yue-Kong Pao or property tycoon Li Ka-Shing.

Perhaps it is because Fung's career cannot be traced in supertankers or square feet; or perhaps because he speaks no English.

Fung decided the other night, however, to detail something of his life to an after-dinner audience in Hong Kong—and a spell-binding evening it was.

It was in 1939 that the 17-year-old Fung arrived in Hong Kong from his native Canton, to start work in a shipyard on a wage of 13 cents a day. "This was raised by five cents," he recalled, "after a year of service." In the evenings, he taught at a night school to make enough money to keep himself fed and housed.

Not particularly enthusiastic about the nuts and bolts of maritime engineering, Fung returned to Canton in 1941 to work at a money-changer's stall. It was a job, he found, after his own heart. Within four year's he progressed from apprentice to chief dealer to treasurer.

This was the time in which, he said, he "grasped the nettle of business operations"—and got severely stung. For after the war, Fung decided to go into the import-export business with a cargo of Canton fish, bought with borrowed money for resale in Taiwan.

His crew proved unequal to the rough seas encountered on the journey, and by the time the boat reached Taiwan, the fish was stinking and Fung was broke. "There was only one thing to do. . . . I mortgaged the boat and with that money bought a cargo of fruit for the journey to Hong Kong." Came another storm, the fruit rotted, "and all I got for my entrepreneurial efforts was a load of debts."

Back then to money-changing where Fung's proven skill yielded what he called "very satisfactory results." Now, he had the capital to diversify into real estate and trade finance. And on the back of Hong Kong's property market boom in the 1960s, Fung accumulated the wealth to found SHK Securities in 1969 and, a year later, the finance house which has now been given a full banking licence.

Today, each of his companies is capitalised on the stock markets at around HK$ 1bn (£97.75m).

One of the nice things about being as rich as that is, if you want a spot of advice, you do not have to mess about with middle management. Wondering where to take SHK Securities next, Fung paid a call in January on Walter Wriston, chairman of Citicorp. Wriston phoned his opposite number at Merrill Lynch, Roger Birk, and the deal publicly announced in mid-May was set in train.

Fung's decision to bring in Merrill Lynch as an operational partner for SHK Securities—just as, four years before, he brought in France's Paribas as a partner for SHK Bank—reflects a divergence from the keep-it-in-the-family attitude of many large Chinese companies.

"A successful company," Fung says, "is one which has set itself clear objectives and is free from the family style of management." And his next objectives? "We are heading towards . . . establishing a multinational financial and investment service supermarket. . . . With our feet in Hong Kong with our back resting against China, with our face towards the Pacific Ocean, we look at the world."

Venturous spirit

After Smirnoff and Vladivar—a vodka with a forthright English name, devised by the boffins at James Burrough, the Beefeater gin people, for sale in the United States.

In a smart marketing ploy, chairman Norman Burrough aims to cash in on the American love of English tradition—which helped his gin go down so well across the Atlantic—and a radical swing in their drinking habits.

No reason, he says, why straightforward English vodka should not keep its end up against better known Soviet or Baltic competitors.

To this end, Burrough has produced an up-market tipple which, at around $11 a bottle, costs over three times more than the cheapest U.S. vodka. The English version is produced with extraordinary care, however, being filtered through charcoal made from the best Sussex oak to give it, Burrough claims, a distinctively mild and subtle flavour.

He confesses reluctantly that American grain is a major ingredient. But distilling is an art, he adds, and it is the technique that counts.

Burrough's marketing men tell him that Americans are becoming less addicted to drinks like Bourbon or rum. They want something lighter, a versatile mixer which does not linger on the breath.

With the aid of 3,500 salesmen, Burrough expects Britain's newest spirit to make a big splash. Its well-balanced taste and smell will be the key, he says—and he should know. He and his co-directors start each day by tasting every batch of spirit before it leaves their Kennington distillery, just to ensure perfection.

Welsh connection

The City of London has much to offer the rest of the country. But has it got what the Government needs now— — an enterprising Welshman with some time on his hands.

Management headhunters, usually so secretive in their searches, are now openly scouring the Square Mile, as well as the rest of Britain, for a Celt of board-room calibre to take the chair of the Welsh Development Agency.

Finding a replacement for the late Stephen Gray is proving so difficult a task that some compromises are even being made over the Welsh connection. The candidate's links with the Principality may be satisfied if he has a Welsh grandparent or has merely worked there for some years.

Nigel Dyckhoff, of management consultants Spencer Stuart, tell me that ideally the WDA, which disbursed about £82m to Welsh industry in 1980-81, needs someone with top business experience, aged from early 50s to around 60, and with a couple of days a week to spare.

For those two days at the Agency's headquarters near Cardiff, the salary would be £16,318 a year — a remuneration now a year overdue for revision.

Welsh Secretary Nicholas Edwards would apparently like to appoint the new man for two terms, a period of six years in all. In recent years most of the Agency's efforts have been directed towards factory building but the plan now is to switch the emphasis towards more direct investment in Welsh industry.

Game licence

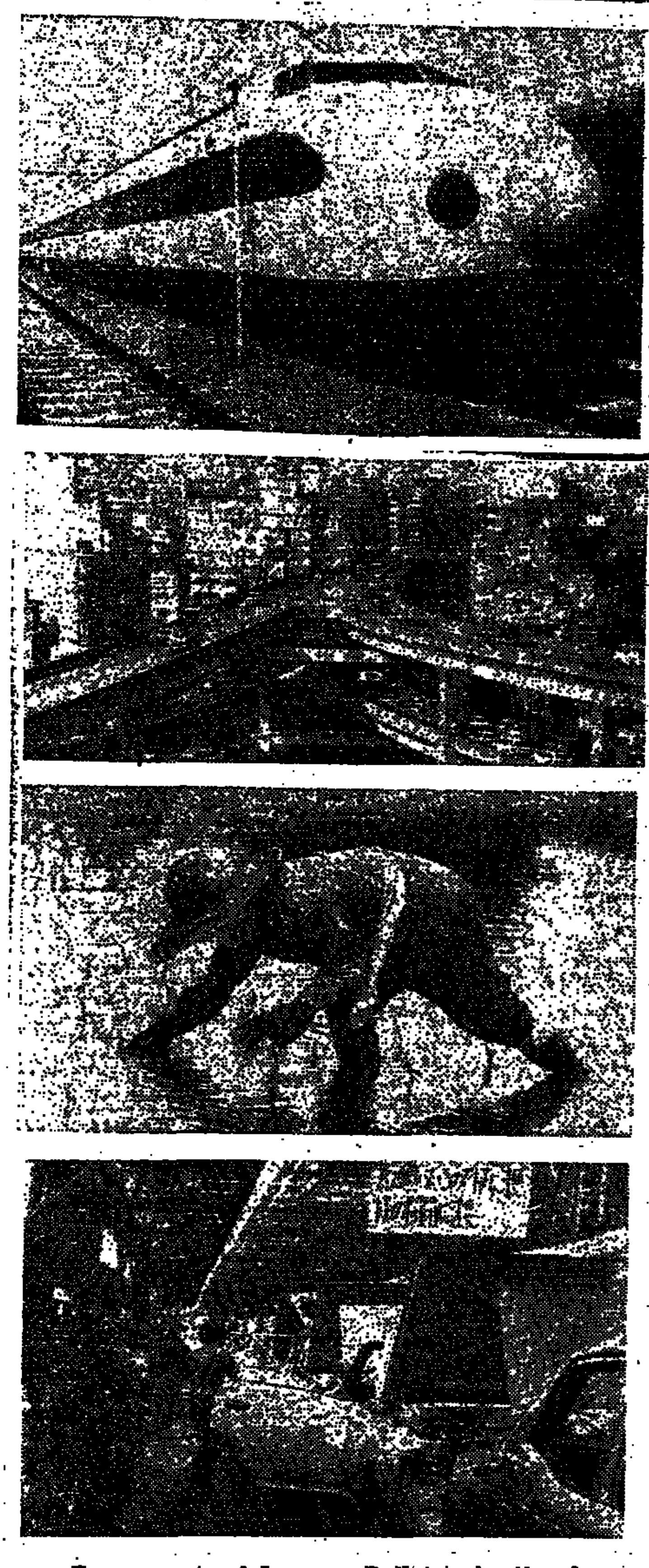
Middle-aged American in Soho night-club: "I left Myrna back at the hotel tonight — no point in bringing a game warden on a hunting trip."

Observer

FINANCIAL TIMES SURVEY

Monday July 5 1982

JAPAN



Four aspects of Japan: a Bullet train, tiered expressway, planting rice and building cars

Japan remains stuck with lower economic growth for some time. An improvement will depend on a Western economic pick-up but the West is concerned at Japan's trade dominance.

Trade partners apply pressure

BY CHARLES SMITH, TOKYO CORRESPONDENT

OFFICIALS AND headline writers in Japan seem to have grown out of the habit of using the word "shokku" to describe any untoward happening in the outside world since the time of the first (1973) oil crisis — perhaps because of the feeling that no other event could inflict the sensations of panic and helplessness that were experienced at the time. Even so, the first six months of 1982 seem likely to be remembered as one of the more unpleasant periods in the nation's post-war history.

From the beginning of the year Japan has been under intermittent, and at times threatening, pressure from its trade partners in the West to limit the sizes of its trade imbalances with them and to remove what Western nations are apparently unanimous in seeing as unfair and reasonable barriers to manufactured goods imports.

The trade issue had not been formally settled at the start of June when Mr Suzuki, the Prime Minister, left Tokyo for Versailles for talks with other advanced countries' heads of state. But the problem did at least appear to have reached a stage where some progress could be said to have been made. By the middle of the year it seemed clear that Japan's celebrated current account surplus would grow only slowly in 1982 from the previous year's levels, and that trade imbalances with individual nations would tend to narrow very slightly rather than widen.

Whether or not a performance that largely re-enacts what happened last year will satisfy the countries that have been urgently demanding a change in Japanese trading practices is one of the unanswered questions facing the Japanese government as it prepares for the second half of the year. The omens can be described as neither particularly ominous nor especially good—given that both the U.S. and the EEC have unfinished business to transact with Japan (in the form of negotiations with the U.S. over farm imports in October and continued hearing at Gatt on the EEC's charges against Japan).

What does seem clear, however, is that the virtually static behaviour of the country's external trade in 1982 will be very bad news indeed for Japan's domestic economy. The country's economic growth during the two years from the immediate aftermath of the 1979 oil crisis to autumn 1981 depended overwhelmingly on the faith that the external sector was moving rapidly from deficit to surplus (while domestic demand remained flat under the impact of the government's deflationary measures).

The disappearance of any growth to speak of in the external sector means that Japan will now have to grow under its own steam—and by all accounts this could be difficult.

The impact of the slackening of Japan's export drive on the growth of the economy as a whole showed up first in the last quarter of 1981—when the GNP recorded a 0.7 per cent fall in growth—for the first time in seven years. It became more broadly apparent in May of this year when the release of figures for the GNP during fiscal 1981 showed a real growth of only 2.7 per cent—fully 2 per cent less than the Government had forecast in its original projections for the year.

However, disappointing low growth figures do not represent the sum of what has happaned to the economy. Slack domestic expansion also means that the government's estimates of fiscal revenue have come badly unstuck and that what was always expected to be an exceedingly difficult year for Japan in terms of making both ends of the budget meet will now be more tricky than ever.

Because of the sudden slackening of its economic growth rate and the accompanying headaches about how to balance the budget, Japan would appear to be faced with a series of economic decisions this autumn that will be among the most difficult for at least a decade. The government badly needs to generate more domestic growth so as to increase its tax revenue—and to fend off the dangers of sharply-increased unemployment that could materialise if Japan continues with less than a 3 per cent growth rate for more than a year or so.

To make the economy grow more, however, the Finance Ministry will need to launch a pump priming programme of public works expenditure for which the funds may well not be forthcoming.

Japan has one more theoretical option for dealing with its current economic predicament—the lowering of interest rates. But for reasons which are closely related to the country's quarrel with its external trade partners, the option is one that cannot possibly be exercised. Japan's interest rates are already far lower than those of most Western countries (including the U.S.) with the result that money has been flowing out of the country in rapidly increasing amounts during the past few months.

The capital outflow has contributed directly to the extreme weakness of the yen—which in turn has made Western nations even more apprehensive than they might otherwise have been about Japan's posture in international trade.

The two events that could deliver Japan from its domestic difficulties — and from the external problem that is closely related to them — would be a "spontaneous" recovery in its own demand, or the recovery of the economies of some of its Western trade partners.

Risk

Neither event appears totally out of the question as viewed from Tokyo. Some mild signs of recovery in domestic demand have made an appearance in Japan's recent economic statistics, although there is a clear risk that the recovery could be aborted by the depressing influence of slower exports.

In the Western world, Japanese analysts claim to detect some signs that things will get better in late 1982 or early next year. But the improvement appears unlikely to come soon enough or to be strong enough to enable Japan to resume anything remotely resembling the export-oriented growth after 1979.

If Japan remains stuck with lower economic growth for the rest of 1982—and perhaps for much of 1983 as well—questions may well have to be asked about the impact on a formerly fast-growing nation of rates of growth that will be not much different from levels known in Europe and America.

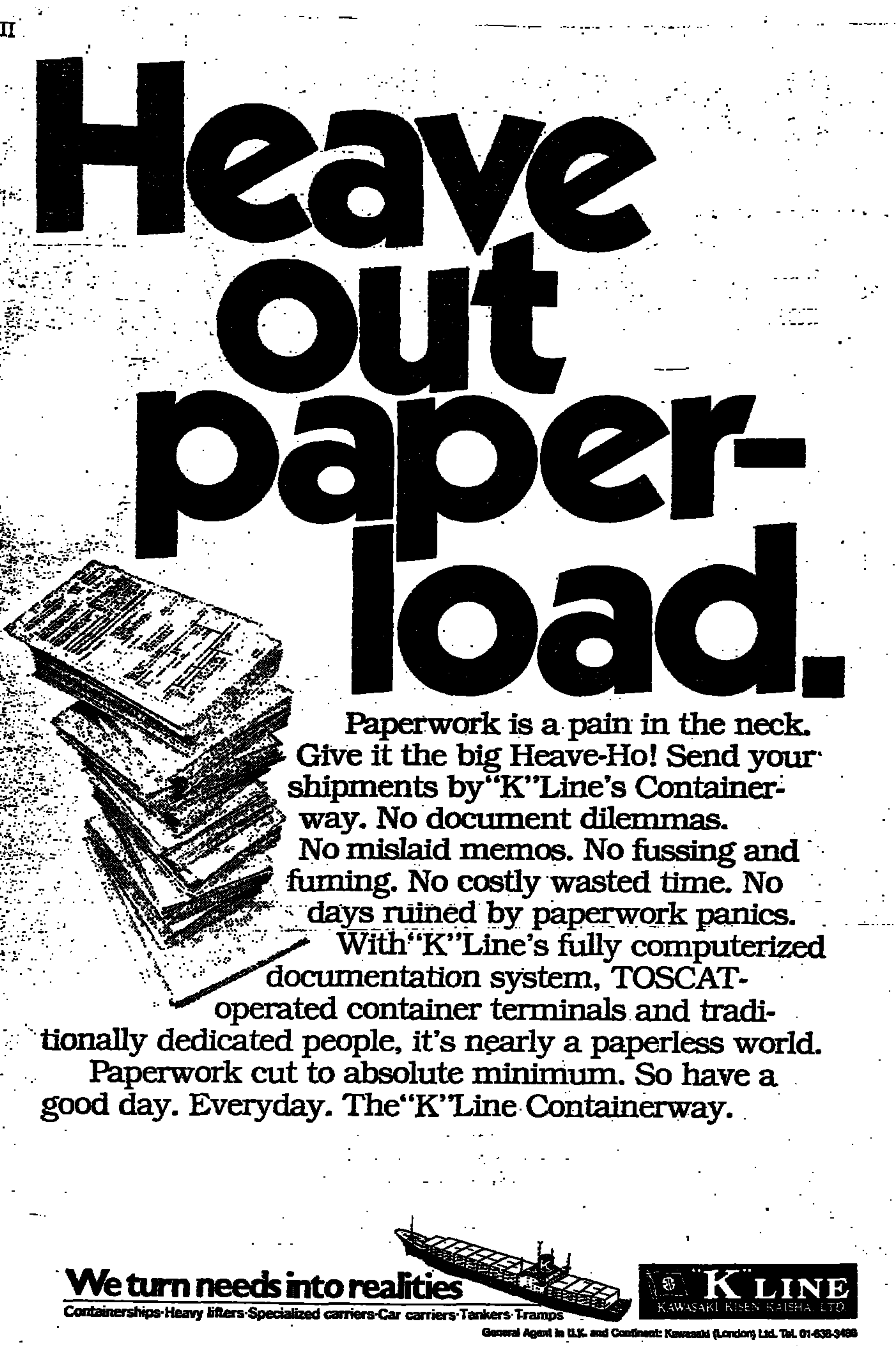
The first answer to such questions could well be that the Japanese will deserve it. Critics of Japan's recent economic performance—including some in Japan itself—have made the point more and more often in the last few months that a single advanced industrial nation cannot, and should not, expect to be able to grow at a much faster pace than the nations which are its main trading partners.

A second view of Japan's predicament could take the line that the experiences of the past few months should have taught Japan a salutary lesson—to the effect that no nation can hope to continue taking more out of the world economy than it puts into it. This, apparently is the lesson that the Japanese government itself is most anxious to draw.

A White Paper on trade published last month by the Ministry of International Trade and Industry (MITI—the Japanese department that has overall responsibility for trade policy as well as for the affairs of most of Japan's major industries) emphasises strongly the need for a bigger input by Japan into the world economy—and into the well-being of Japan's trade partners in the West.

A greater contribution by Japan to the development of original technology, more job-creating investments in the Western nations, and an enhanced foreign aid programme were included on the MITI agenda. Non-MITI observers of Japan's evolving international role might include the need for Japan to shoulder a larger share of the burden of its own defence.

CONTENTS



Economy held back by slack demand in West

THIS HAS not been a good year so far for Japan's planners. Barely a quarter of the way into the new fiscal year (which began on April 1) the Government has long since abandoned any pretence of believing that its original forecast of 5.2 per cent for the real growth of the GNP can be achieved.

Instead, economists are talking cautiously of growth of about 3 per cent. or not much more than the rate achieved in 1981. A look at the horizon suggests that economic management for the rest of the year will be a decidedly tricky business.

The factors that have hindered accurate forecasting of the economy and effective economic management have included the illogical (as the Japanese see it) behaviour of U.S. interest rates. A continuing wide gap between interest rates in Japan and the U.S. has meant, for one thing, that capital has flowed out of the country in record amounts. This in turn has produced a drastic impact on the yen which is now at its lowest level against the dollar for more than two years.

One of the most serious results of the yen's weakness and of the gaping difference between U.S. and Japanese interest rates has been an almost complete inflexibility in the Government's interest rate policy. The inability of the Bank of Japan to lower nominal rates of interest has meant that real interest rates (ie, the gap between nominal rates and the rate of inflation) have risen to unusually high levels. This has meant hardship for the cash-hungry small companies which remain heavily dependent on bank loans and are now finding them more and more costly.

Calculations

The failure of economic recovery in the West to materialise when it was expected has dealt another blow to Japan's calculations for its domestic economy. Slack demand in the U.S. and in Western Europe has been directly reflected in the poor performance of Japanese exports—which had provided the mainstay of economic growth for two consecutive years until the autumn of 1981.

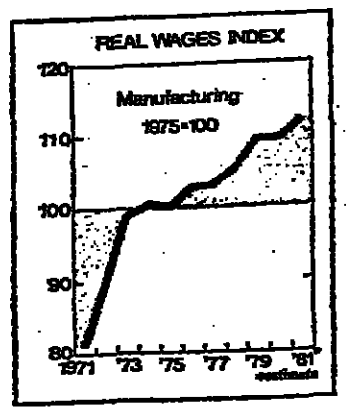
A sharp quarter to quarter decline in exports during the final three months of last year resulted in negative growth for the GNP as a whole (the first time in seven years) and although both exports—and the economy performed slightly better in the first quarter of 1982 overall levels of economic activity remained well below expectations.

Particularly worrying and disappointing has been the steady decline of industrial production since last October (except in March when the downward trend was temporarily reversed). After a 1.6 per cent provisional month to month decline in industrial output index in May, the industrial production index is now only 1.4 per cent up on the levels of a year ago.

One consequence of the economy's failure to pick up during the first half of 1982 has been that the export-oriented "processing industries" (cars, consumer electronics, etc) appear to have joined the rest of the economy in giving a generally lacklustre performance. Throughout much of 1981 the processing sector was performing strongly in contrast with the general atmosphere of gloom in the materials sector of the economy—consisting of the non-ferrous metals, oil refining, paper and pulp and petrochemicals industries and other producers of semi-finished industrial materials.

In the first half of 1982 some materials industries appeared to be performing very slightly better than in the previous half year (in part because a temporary revival in the yen exchange rate reduced their import bills). The processing industries, however, more than made up for this marginal turn for the better by a loss of dynamism which was the direct result of slower overseas demand for Japanese exports.

One of the economy's blackest spots is the public sector. Quite aside from the factors which so far have been beyond the control of the government, it is now obvious that economic planners gave in, against their better judgment, to political pressures to set unrealistically high growth rates on which to plan this year's budget. One government economist admits that the Economic Planning Agency staff originally advocated a GNP target of about 3 per cent (now the range considered attainable). By the time the forecast became policy it had crept upwards by two percentage points.



Briefly, the result has been to turn an already precarious budget situation into a full-blown fiscal crisis. Slower than expected growth last year has led to a shortfall in tax revenues of around Y3,000bn.

This will probably be even larger this year, bar a sharp upturn in the economy.

Pledge

The government pledge to hold down deficit spending has already been made unrealistic (eventually the shortfalls will have to be covered by issuing large amounts of new national bonds, on top of an already hefty debt load this year of Y12,000bn). Stimulating the economy, through a supplementary budget with a large increment of public works spending, may be delayed at best, at worst made impossible.

There is in fact a sharp split in opinion as to whether the government should make any attempt to stimulate the economy. So far Prime Minister Suzuki has stuck to his guns on the need to continue with plans to reform government finances, that is, cut down on deficit spending. In this, his government has the support of the leadership of Keidanren, the powerful organisation which represents big business in Japan. Big business is in the vanguard of a move to keep a big government from growing further.

On the other hand, the main advocate in the government for stimulating the economy is the Director General of the EPA, Mr Toshio Komoto. Mr Komoto is also eyeing the Prime Minister's post in party elections scheduled for this autumn. There is a possibility that the argument between the Keynesians and the fiscal conservatives in the Cabinet may simply fall by the wayside if Prime Minister Suzuki becomes too bogged down in the non-economic political squabbles within the ruling Liberal Democratic Party to venture any timely action on the economy before the November election.

There are a number of other schools of thought on how the government should best proceed with the management of the economy. But the main arguments are now tending toward debates over whether Japan need strive for rates of economic growth in excess of its major trading partners.

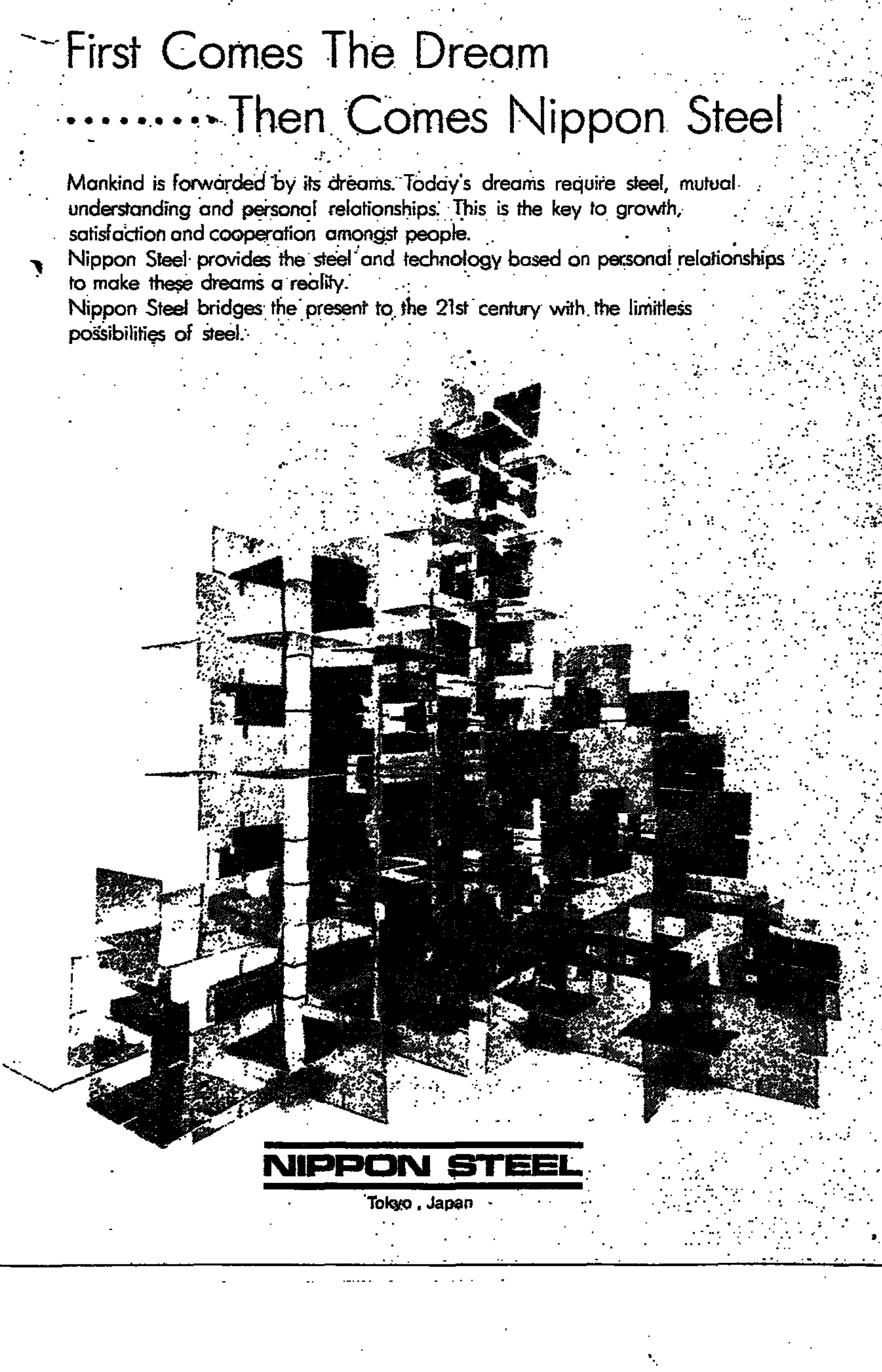
However, there is still a widely held assumption that the economy must expand at at least a moderately fast pace (say 4 per cent to 6 per cent a year) in order that future problems with unemployment, now running at about 2.3 per cent, can be avoided. This school would therefore say that something has to be done as quickly as possible to get the economy back into a growth.

In any case, given the poor state of government finances and a continuing resistance on the part of consumers to consume, this year the domestic economy will probably not be covering at anything like the rate most people would prefer.

This leaves the external sector, which over the past two years has carried the lion's share of economic growth—to the chagrin of Japan's trading partners.

In 1980, 3.3 per cent of a real GNP rate of 3.7 per cent was external demand (that is exports minus the value of imports). Last year, 1.8 per cent of the sluggish 2.7 per cent growth, or exactly two-thirds, came as a result of trade. This was nearly the exact reverse of what the government had envisaged.

Charles Smith



Tariff reductions help to defuse tensions over international trade

JAPAN IS likely to remain at the centre of tensions within the international trading system for the foreseeable future. Although the striking export growth of 1979-1981 has petered out, the capacity of the internal economy to absorb more imports is strictly limited.

The result is that complaints by the U.S. and EEC about aggressive exporting may diminish but any hopes they have of redressing immediately their trade imbalances with Japan through higher exports of their own will be disappointed.

Officials at the Ministry of International Trade and Industry in Tokyo feel that tensions with the U.S. have passed their peak. Certainly the Reagan Administration's stand against congressional pressure for legislation, which would relate Japanese access to the U.S. market to the openness of Japan's market to U.S. products, has scaled down the dispute between the two governments.

At the same time, the willingness of Japan to accelerate tariff reductions and make unilateral tariff cuts, coupled with measures to scale down non-tariff barriers, has itself helped to defuse the situation. But important talks on agricultural trade will be held in the autumn and it is unlikely that U.S. pressure on Japan will ease until Japan has enlarged quotas on such items as beef and citrus products.

For Japan, harmonious relations with the U.S. are essential: the U.S. market takes a quarter of Japanese exports. This was reflected in comments by Mr Shintaro Abe, Minister for International Trade and Industry, after the June package of tariff cuts.

The steps taken then on manufactured goods were final, he said, but he was pleased with Washington's reaction, although the EEC did not seem to be able to grasp the significance of what Japan had done. "I'm more interested in reactions from the U.S. anyway, since it supports free trade, than in what the EEC thinks," he commented.

His officials expect discord with the EEC to continue at its present high level. But Japan cannot brush the EEC countries aside — they are the destination for 15 per cent of its exports.

The EEC has taken Japan into the disputes procedure of the General Agreement on Tariffs and Trade, not on a specific action, but on the whole range of its trading policies, arguing generally that the structure of the Japanese economy has meant that it has not had the benefit of tariff reductions it should expect.

JAPANESE EXPORT DESTINATIONS

Country	Passenger cars	Commercial vehicles	Total vehicles	Share (%)
U.S.	1,761,403	543,411	2,304,814	38.1
West Germany	235,248	39,462	274,705	4.5
Australia	134,701	132,745	267,446	4.4
Saudi Arabia	105,273	146,581	251,854	4.2
Canada	199,951	46,518	246,469	4.1
Indonesia	26,120	162,540	188,660	3.1
UK	148,583	32,910	181,493	3.0
Nigeria	50,653	100,653	151,306	2.5
South Africa	4,487	115,256	119,743	2.0
Netherlands	103,334	12,519	115,853	1.9
Other countries	1,176,789	769,310	1,946,104	32.2
Total	3,946,542	2,101,905	6,048,447	100.0

Notes: (1) Excludes KD sets. (2) Other countries includes exports to the United Nations and other international organisations.
Source: JAMA.

This action, unprecedented in its scope, will keep the points of tension in the forefront of political consideration in Brussels and Tokyo, but it blunts the possibility of measures leading to further restraints of trade. The danger has always been — and not only in the EEC — that governments harassed by domestic industries hurt by Japanese competitiveness would lower the import shutters and in turn prompt retaliation from Tokyo.

Range

The problem for the Japanese Government has been the success of its own industry in exploiting specific markets with what is thought in the West to be a relatively narrow range of products. There has been nothing illegal in this, in terms of international trading rules, but there has been the nagging feeling in the West that Japan has not played a full role in the international system because its market has appeared to be closed. Not in a formal sense, but because of its separateness and, its preference for domestically-produced goods.

Thus while Japan's exports have increased markedly since 1960 and especially since 1973, its manufactured imports expressed as a percentage of GNP have remained static. In 1960 the percentage was 2.4 and in 1980 it was 2.5. The comparable figures for the U.S. are 2.0 and 4.3 and for the EEC 3.3 and 6.0.

The Japanese Government, however, acknowledging that as Japan is currently in the best shape of all the industrialised economies and that Japan now accounts for 10 per cent of world GNP, is in the middle of a process designed to emphasise partnership in the trading system.

There are two main elements: the first is the opening of the Japanese market which involves not only action on tariffs and non-tariff barriers, but also the establishment of special offices and services to help potential sellers on the market. The second is industrial co-operation, involving the encouragement of greater direct investment, the establishment of more joint ventures with foreign companies and technology links with groups overseas.

But the effect of all these actions will be gradual. Export restraint, however, is not so much a policy as a practice widely seen as essential by afflicted European and U.S. car, electronics and machine tool manufacturers among others. In fact, sluggish overseas markets are the main factor currently holding back Japanese exports.

During 1979-81 there was a 30 per cent increase in Japanese exports at a time when the demand for finished goods, according to economists at Marubeni, the trading house, rose in Japan's overseas markets by 3 per cent. But in the process of increasing market shares, heavy stocks were built up and they now overhang the markets.

At the same time, higher corporate investment overseas has meant some move away from direct exporting to manufacture overseas, while exports have been intentionally held back, either because Japanese companies were engaging in voluntary restraint agreements or were adopting what is called prudent marketing.

These background factors have been at work while signs of reduced foreign demand have multiplied:

- Export contracts won by industrial machinery exporters in April were 83 per cent lower than in March and 24.5 per cent down on April 1981;
- Cutbacks in international oil exploration have led the four major Japanese steel producers to cut production of seamless pipe by up to 40 per cent for the July-September period.

At the Economic Planning Agency in Tokyo it is noted that Japan's basic material industries are losing some of their international competitiveness, but that in the high added value sector, the knowledge intensive industries, like robotics, sales boomed until September 1981, helped by previous heavy investment and the yen's low value.

Revenue

The slowdown in exports started soon after that and the general expectation among trade specialists and economists in Tokyo is that this year total revenue from exports will be broadly the same as in 1981, with perhaps a 2 per cent downturn.

This will take some pressure off the overseas markets and ease the strain on Japan's competitors, but these same competitors will not necessarily find sales in Japan any easier to achieve. The domestic economy is in the doldrums and Japan's trading partners do not seem in the immediate future likely to gain any benefits from an increase in the international value of the yen.

But even if such economic factors were to swing in favour of higher Japanese imports, it is by no means clear that potential suppliers to the market will be any readier than in the past to come to terms with the intricacies of Japan's distribution system and make the sort of investment which is necessary to secure a place in this most quality-conscious of markets.

Paul Cheeseright

Seeking the right perspective of a visible trade surplus

OF ALL the major industrial powers Japan has the most unusual balance of payments situation. Because of her past competitiveness in exports and protectiveness in imports, Japan has built up a pattern of surplus on her visible trade account, and although this is no longer as automatic as it used to be, Japan in the normal event is still better placed than the countries of North America and Europe.

When taxed on this visible surplus, so unnatural in terms of her own weak raw materials and strong thirst for imports of foodstuffs, energy and raw materials, Japan falls back on the argument that it is needed to finance her investments of capital abroad, including both aid to the developing countries and investment in all the continents.

Another feature of Japan's visible trade balance is that she traditionally earns a surplus from the other industrialised countries, especially America and the European Community, and uses this surplus partly to pay for her very large imports from the oil-producing countries and other Third World states producing vital raw materials.

Currently, Japan's export momentum is failing, with a steady downswing in export growth for the past 12 months. But then the sluggishness in the Japanese domestic market means that the gap may actually remain the same, and some foreign observers in Tokyo believe that the trade surplus is hardly affected by these mutually offsetting trends.

It is true that some senior Japanese officials, even in the Ministry of International Trade and Industry, wax emotional about the pressure from Western markets for Japan to cut down on its trade surplus. Mr Wakasugi of MITI in particular has declared that if the Japanese surplus with the industrialised countries could not be maintained to pay for Middle Eastern and Southeast Asian oil, then "the Japanese economy would be reduced and, to survive, we would have to increase our transactions with Communist countries."

But it is not common for Government officials to indulge publicly in such speculation. For the most part they prefer to express the legitimate wonder whether the present and immediate future trends are going to sustain this Japanese surplus at all.

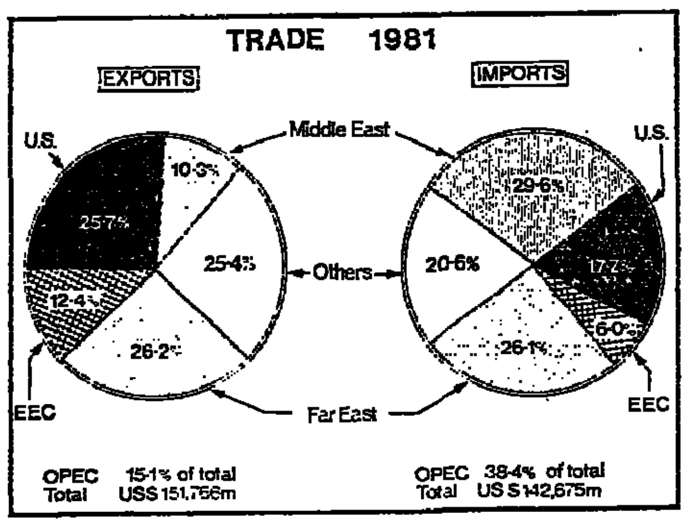
The trade account has not only to cover the substantial predictable deficits with Opec members and others, but also the invisible deficit as well. The current account surplus including these two was able to reach a level of $5.9bn in the fiscal year ended in March. But the overall balance of payments was in deficit to the much larger sum of $7.9bn largely because of the high rate of capital outflow.

This in turn was a consequence of the inviting differentials in interest rates (Japan's being about half those in the U.S. for much of the time). Outward investment reached $8.8bn during that year, about two and a half times the level of the previous year.

Within that current account surplus of $5.9bn, there was a visible trade surplus of $9.2bn, in spite of which the overall deficit was as large as it was. This represents the third largest trade surplus ever enjoyed by Japan, contrasting particularly with the $5.9bn deficit of the previous year. The surplus was more than $14bn with the U.S., and more than $10bn with the EEC.

The consecutive falls in the export figures in the early months of this year may well see a trade surplus for the current year of a rather smaller order. Marubeni has predicted that the high level of investments in manufacturing in overseas markets in the last year is bound to reduce exports from Japan to those markets, it suggests by up to $4bn.

The services or invisible account must surely now constitute one of the most under-publicised and under-discussed aspects of Japan's balance of payments. It is obvious, given Japan's fundamental economic situation and recent history, that she runs a sizeable deficit on the invisible or services account, and this deficit has grown consistently, sometimes by leaps and bounds, to reach in the calendar year 1981 the astonishing level of $13.7bn—enough to offset two-thirds of the trade surplus in that year to bring the current account surplus down to the rather small level of under $5bn.



The biggest item in this invisible account is fees and royalties, for which Japan paid out a net $5.8bn last year. Tourists paid out a net $4.1bn and the transport account including shipping, freight and aviation, another $3.2bn net. Japan needs services of this kind from outside suppliers and in foreign countries to a far greater extent than foreigners need them in Japan.

The Japanese understandably are baffled by the Western attitude to invisibles, which in one view are a natural complement to the trade payments in making up a final current account balance. But there is another view, strongly held in Europe at this time, that the invisibles are quite separate from trade and should not be allowed to excuse the running of such a substantial visible trade surplus.

Mr Fujiwara Ichiro, the new Vice-Minister at MITI, has an amusing comment. In the days long ago when Japan used to endure a very large visible trade deficit, Japanese officials had to argue with their American counterparts to find some way of reducing the gap. At that time the Americans took the view that the invisible account should be considered along with the visible as part of the overall balance. In the same way the Americans argued with their Japanese ally that they should not just consider bilateral balances. The whole thing could suitably be discussed in the framework of multilateral trade relationships.

These days the Eurocrats in the Berlaymont often complain in the way that Japan did in earlier days, shutting their ears to the arguments which the Americans used to put. However, consistency is not a feature of international economic diplomacy over such a long period.

The forward-looking view is typified by Mr Amaya Nachiro of MITI, who notes that the invisible trade account shows a balance in favour of both the EEC as such and of the UK. When the balance of payments is considered between the UK and Japan, he feels, the invisible account should also be considered.

The impression given by the Eurocrats and their British and French supporters in London and Paris is of manfully backing the outdated horse and underplaying a part of the economy which the Japanese for one consider to be the portent of the future.

This particular argument is heightened by the discrepancy in figures, the Bank of England and the Bank of Japan giving vastly different calculations for their respective balances on the invisible trade. Since the Bank of Japan figures are much more comprehensive, detailed, regular and frequent, they inevitably attract more plausibility than the British ones.

Question

But there are problems of definition, particularly relating to the element of onward transmission of income to third countries, which have not yet been ironed out through multilateral agreement in the OECD or the Gatt. Perhaps it is about time that these bodies addressed themselves to this question, since it is bound to come up again as a bone of contention on the balance of payments problems relating to Japan.

European argue for example, that some of the investment income from Japan which is remitted to a bank in London is immediately remitted onwards to a bank in Nigeria, and this should not qualify as income to the UK since the bank in Britain will get only a small commission. Whereupon the Japanese will quote the argument in another context. What about visible trade, they will ask?

Recently, a Bank of England team had some sessions with the Bank of Japan in Tokyo at which some of these esoteric problems of definition and calculation were thrashed out. No one goes so far as to claim any specific results, but there is a detectable feeling that the issue is no longer quite as heated as it used to be.

It comes back to the basic point of Japanese uniqueness. The Japanese economy, poised between the industrialised West and the developing South, is extremely unlike that of the European or North American states. The balance of payments follows necessarily from this. The fact that Japan with its huge industrial economy and highly literate and numerate population runs a deficit on services of the kind that most European states, not to mention the U.S., would find horrific, is another part of that difference.

Dick Wilson

Wider view of foreign policy

U.S.-JAPAN TIES remain the cornerstone in Japan's relations with the rest of the world. Mr Mike Mansfield, the U.S. Ambassador to Japan, likes to describe the relationship as "the single most important bilateral relationship in the world—bar none!" Japan shares a mostly common view of the world with the U.S., having prospered under a more or less (these days less) free system of bilateral trade.

Japan shares the political values of the U.S. and, to a somewhat milder extent, the current U.S. preoccupation with the Russian threat. The bedrock of the relationship is a mutual defence pact, which dates back three decades.

Since the first oil crisis, however, there has been a dramatic shift in how Japan perceives its worldwide interests, and how it goes about conducting foreign policy to suit those interests. The U.S. may still be the single most important concern, but events and realities, have, in the words of one senior Western diplomat, forced Japan to "discover the world."

President Nixon's declared "multi-polar" approach to diplomacy, culminating in a surprise reopening of U.S. ties with China—Japan's giant neighbour—without consulting Tokyo, brought home to Japan the awareness that it could no longer depend on Washington to consider Japan's best interests in pursuing its own.

That Japan's diplomatic cupboard was all but bare of alternatives to the U.S. connection became all too obvious when the 1973 oil crisis struck. Japan's post-war world began to crumble.

The immediate result of the oil crisis was that Japan "discovered" the Middle East, a region in which it had previously shown no interest despite the fact that most of its oil came from Arab states via the world's major oil companies. Japan's efforts since have been concentrated on currying favour with the moderate Arab oil producers.

The kinds of splits between Japanese and U.S. foreign policy which have arisen in recent years can be seen quite clearly in Middle East policy. Japan shows very little sympathy for Israel and has expressed quite a lot of support for the Palestinians' cause.

Staying in line

It is also true, however, that Japan's Middle East policies have not been far enough out of line with those of the U.S. to cause serious problems. One sign of Japan's pragmatism is that Egypt is currently the biggest recipient of Japanese official development aid outside of Asia.

Significantly, Japan's new perception of its needs did not simply get buried in the Middle East sands. A chain-reaction occurred in which policymakers began to reassess, on a long-term basis, how Japan, lacking most vital natural resources, could assure supplies of all types of energy and raw materials. Japan now pays serious attention to all parts of the world.

Though there have been some diplomatic blunders along the way, by and large Japan's initiatives have met with success over the past few years. After recovering from the Nixon shock, Japan quickly formed its own links with China, severing official ties with Taiwan.

The commitment to China included a long-term promise to co-operate in economic development which, despite ups and downs, seems to be proving advantageous for both sides. During a recent visit by the Chinese Premier to commemorate the tenth anniversary of restoring ties, there were virtually no outstanding bilateral problems to discuss.

Japan manages rather adroitly to maintain a balance between its policy towards China and towards the Soviet Union, despite the absence of a formal end to the 1939-45 World War, a treaty stalled by a dispute over four islands held by the Russians north of Hokkaido.

In Latin America, Japan is making its mark—from Mexico, from which Japan wants oil, to Brazil, where it is involved in huge mineral development projects. Japan is even offering to help build a new Panama Canal.

Co-operation

Ties with Africa may not show dramatic movements, but the steady stream of African leaders through Tokyo in recent years indicates that Japan may have a greater role to play.

Asia and the Pacific Basin remain the chief long-term interests for Japan, however. Japan in recent years has emphasised the importance of co-operation with South East Asia, and in fact has fairly close ties with the Association of South East Asian Nations (ASEAN), in the form of political and economic support.

Where are these independent initiatives leading Japan? It is probably far-fetched to think that Japan wants, or could support, a truly "independent" foreign policy such as those adopted by the UK, West Germany or France. This has been ruled out, first, by a strong political determination not to pursue, for the time being, an active military role. The U.S., for all its pressure for more defence spending by Japan, sees Japan's role as limited to being able to defend itself better.

Second, it is also clear that changes in Japanese diplomatic thinking are not the result of bold new leadership on the national political scene. The current generation of politicians in control of the ruling Liberal Democratic Party Government are for the most part cautious products of the 1950s and 1960s, when foreign policy was a much simpler intellectual exercise than it is today.

Such ideas as do emerge tend to come from a vigorous middle level of bureaucrats in the Foreign Ministry and elsewhere who tend to have a fairly clear and pragmatic view of what is in Japan's best long-term interests.

In practice, Japan's diplomatic efforts are mostly responses to crises rather than attempts to break new ground. To its credit, Japan's response to most of the recent cycles of trade frictions with the West have been generally positive attempts to correct what others view as overly-protected trade practices.

It is already clear, however, that there are any number of situations in which Japan's perception of its own best interest will clash with those of its allies in the West. The potential for splits is probably greater in the case of Western Europe than the U.S., simply because the U.S. is still considered more important.

One extreme example has been Japanese reaction to the war between Britain and Argentina over the Falklands Islands. Japan angered Britain first with its rather flimsy sanctions against Argentina, and then a vote, near the end of the conflict, in favour of a UN Security Council call for a ceasefire, which was vetoed by the UK.

That Japan's relations with

CONTINUED ON PAGE IV

Asian trade relations develop more smoothly

JAPAN'S FIRST priority in South-East Asia in recent years has been to carve out a political role for itself in the partial vacuum *left by the U.S. in the* post Vietnam war era. This it has accomplished with a surprising degree of success.

For the first time, however, its trading relations with the rest of Asia are coming under close scrutiny after years of benign neglect. Japan has far fewer serious trade disputes in the region than it has with the West, but many of the complaints now being heard have for the Japanese an all too familiar ring.

There are probably two main reasons why regional trade is becoming an issue for Japan. The immediate concern stems from the economic difficulties faced by the emerging Asian NICs (Newly Industrialising Countries) as a result of recession and growing protectionism in their most important markets in the West.

A number of NICs, notably Taiwan and South Korea, depend heavily on trade surpluses with the West to offset large "structural" deficits with Japan, which provides machinery, parts and raw material vital for local export industries. The strongest protests about these deficits have come from Taiwan, whose trade deficit with Japan over the past two years climbed to well over $3bn while its overall payments situation turned precarious.

In February the Taiwan government stunned Japan by banning indefinitely the import of 1,500 Japanese-made consumer items. A number of big ticket exports such as large trucks, buses and diesel engines were also suspended for one year—but for special reasons.

The second reason why economic relations with NICs have come to the fore, and the one with important longer term implications for Japan, is that a number of Asian states, notably members of the Association of South East Asian Nations (Asean) have at last woken up to the advantages of a common front in trade.

Trade relations between Japan and the rest of Asia are still less complex than those with the industrialised West. Asia remains overwhelmingly a supplier of basic raw materials, energy and low grade manufactured goods, while Japan is primarily a crucial source for its neighbours of machinery, chemicals and other materials, investment and technology. These relations, however, are gradually evolving as the rest of Asia catches up with Japan.

The signs of restlessness over trade have emerged mostly in the past year or so, and are at least partially related to the "success" which the West has had in forcing the Japanese Government to open its markets to foreign products. Asean has been quick to request that Japan provide easier access for its goods and apply its preferential tariff schemes more liberally.

TRADE WITH S.E. ASIA
(% of total trade—1981)

	Exports	Imports
S.E. Asia	22.6	22.3
South Korea	3.7	2.4
Taiwan	3.6	1.8
Hong Kong	3.5	0.5
Singapore	2.9	1.4
Indonesia	2.7	9.3

Source: Summary of Trade of Japan

Japan has reacted coolly to the idea of *formulating any* sort of special trade "packages" for its neighbours. Officials have, however, emphasised to Japan's Asian trading partners that steps being taken to open its markets apply equally to all.

In some minor cases Japan has brought forward tariff cuts on items of specific interest to Asean countries (though the Philippines complain that levies on banana cartons have not been changed). One of Japan's problems in acceding to requests from Asean is that many items are in the extremely sensitive area of agricultural trade, which is by far the most protected and politically important sector of the Japanese economy.

Pressures

Japan's response to pressures from the more advanced NICs, notably South Korea and Taiwan, to ease heavy imbalances in two-way trade have consisted mostly of private level "buy" missions.

Japan's trade relations are naturally complicated by the huge differences which exist in the region.

There is the further problem of matching political considerations in the trade equation. China and Taiwan view trade through politically coloured lenses. For historical reasons, relations with South Korea (and North Korea) require nimble footwork (especially in view of a South Korea demand tabled last year for a whopping $6bn in aid from Japan). Members of Asean keep alive memories of experiences with Japan's "co-prosperity sphere" during World War II (For all practical purposes Japan's trade ties with Communist Indochina have ground to a halt.) Hong Kong is a case on its own.

The trade figures mirror fairly precisely these complexities. Overall Asia accounts for about 10 to 12 per cent of Japan's two-way trade with the outside world, a proportion which is much lower than the ratio of Japan's direct investment in the region over the past decade or so (roughly 20 per cent) and the amount of official development aid which the Japanese Government pledges in the region (around 30 per cent in a recent year). Japan enjoys a modest trade surplus with the region as a whole but the balances, or imbalances differ radically.

Japan's trade with China, which shows a tenfold increase in the past 10 years to about $10bn, is on the other hand roughly in balance. Japan has large bilateral surpluses, because of its role as a prime source of vital equipment and materials, with South Korea, Taiwan, Singapore and Thailand. Hong Kong, without much complaint, has the distinction of *providing Japan* with its second largest bilateral trade surplus ($4.7bn in 1981) after the U.S.

On the other hand Japan's dependence on Indonesia for oil imports (18 per cent of the total) left it with a 1981 deficit of over $9bn. Malaysia barely managed a surplus last year, but this was mainly because of a sharp drop in commodity prices.

The net result is that Japan runs a large deficit with Asean as a bloc ($5.8bn last year against $8.7bn in 1980). A closer look at the content of trade reveals that nearly 80 per cent of Asean exports to Japan fall into the category of energy supplies or timber. The other side of the equation is that 80 per cent of Japan's exports to Asean consist of machinery (58 per cent) and metals (21 per cent).

These traditional patterns of trade between Japan and the rest of Asia seemed to work more or less to the satisfaction of all parties as long as:

1—the NIC were able to count on comparatively rapid rates of exported growth.

2—that, in the case of commodity producers, the prices of commodities remained stable or on the rise. Now Japan is experiencing what happens when things begin to come unwound.

As far as the NICs (that is, those which depend on imports of Japanese machinery, etc., to run their own export industries) are concerned, Japan's biggest worry is that others may follow the example of Taiwan in unilaterally banning certain Japanese imports. Taiwan's situation is somewhat unusual in that it is not a party to the General Agreement on Tariffs and Trade (Gatt) which discourages such arbitrary moves. (China and Thailand are also outside the Gatt). But the frustrations which led Taiwan to retaliate are just below the surface in other countries, and could get worse if recession in the West were to be prolonged.

Japan has in the past perhaps paid too little attention to these kinds of bilateral trade problems but there are signs that more people are starting to place a higher priority on containing the damage which could be caused. One important sign is that the ruling Liberal Democratic Party (LDP) is preparing to send a mission to Taiwan led by the globe-trotting Mr Masumi Esaki, the former MITI Minister who earlier in the year headed LDP trade missions to the U.S. and Europe on behalf of Prime Minister Suzuki's Government.

Such a high level (though unofficial) gesture could be enough to soothe the feelings of the Government in Taipei which at the best of times occasionally needs stroking to ease the pain of having lost official recognition by Japan. One hope is that Taiwan will actually end its largely symbolic import ban. The fact that Taiwan's trade deficit with Japan has so far shown signs of shrinking may also encourage a return to normality.

Economic gaps

Japan's relations in the region have in general developed rather smoothly, considering the economic gaps which exist and the unpleasant memories of Japan's earlier behaviour. With the glaring exception of South Korea, Japan appears to be capable of responding to the shifting scene.

In South Korea's case, issues of trade and official aid are almost impossible to divorce from the emotion-charged history of their relationship. Reaching a compromise on the outstanding South Korean demand for $6bn in developmental aid from Japan (Japan has so far offered a basket of $4bn, with official yen loans amounting to $1.3bn, which South Korea rejected) may prove harder than ever if recent scandals destabilise the current government in Seoul.

Aid to Asean, though delayed mostly by indecision within the grouping itself is proceeding in two regional projects (involving about $1bn in Japanese aid). Japan, under its "Asean doctrine," has pledged further co-operation in developing energy projects, manpower, small and medium-sized enterprises and low-grade manufacturing and in enhancing cultural ties.

Japan's long-term strategic goal is to maintain stability in the region. It needs this both to assure continued access to Asia's vast natural resources and vital sea lanes, through which most of its trade with the rest of the world must pass. It is now clear that trade relations between Japan and Asia will play a more important role in achieving stability.

Richard Hanson

Foreign policy

CONTINUED FROM PREVIOUS PAGE

the U.S. are also subject to strain has been illustrated again recently by a decision in Washington to step up its sanctions against the Soviet Union over the Polish crisis.

Japan, it should be recalled, was among the staunchest backers of anti-Soviet sanctions after the invasion of Afghanistan. (Europe's less unified reaction is in fact a source of serious pique in Japan, because Europe gained business as a result of Japan's tough stance.)

In this latest tightening of the anti-Soviet screw, however, Japan's seven-year-old gas and oil exploration venture offshore from the Siberian island of Sakhalin has been threatened with disruption by a U.S. refusal to supply high technology exploration equipment (a U.S. company, Gulf Oil, is also a partner in the venture), prompting a diplomatic row. Japan considers this unreasonable for various reasons, and is strongly urging the U.S. to reverse the decision.

Japanese foreign policies certainly suffer from a number of defects. Japan, for instance, has yet adequately to sort out its relations with the European Community (EEC) as a whole.

Japan's late discovery of foreign policy only in the 1970s, may explain why there is less appreciation for European unity, a concept of the two previous decades when Japan's main concern was selling transistor radios and such.

One final point to be considered is that Japan's own perception of itself is undergoing a rather subtle delicate change. While there is constant fretting that Japan may be about to veer to one extreme or another—isolationist, militarist, Communist, and so on—the reality seems to be a shift to even more moderate political climes. This middle of the road mentality ought to help shape Japan's thinking toward the rest of the world throughout the 1980s, providing the outside world applies no extreme pressures for Tokyo to change direction.

Richard Hanson

Co-operation: fruitful talks with the UK

INDUSTRIAL co-operation is the vogue. It is the "international keyword of the 1980s," according to the Ministry of International Trade and Industry in Tokyo. Currently it "involves Japan extending active co-operation to economically troubled industrial democracies."

Hence it has been seized upon as a means of reducing the trade frictions which exist with the EEC. The political rationale is that recession is increasing protectionist pressures, which are against Japan's interests. Japan, however, is in better economic shape than many of its industrialised trading partners and therefore it would be responsible to acknowledge Japan's economic power and extend a helping hand.

To that extent Japanese leaders are seeking to bring system into normal corporate exchanges of mutual benefit. But an EEC official commented cynically: "Japanese companies don't see much point in co-operation unless it is to buy off possible restraints."

Inroads

There is a strong element of truth in this because many of the joint Japan-EEC ventures or direct Japanese investments in the EEC are in precisely those areas where Japanese exports have made inroads into the markets of European producers.

They are areas where, varying from country to country, there are restraint agreements or restrictions on Japanese exports —cars, machine tools, consumer electronics.

Broadly, there are four different types of industrial co-operation:

- Japanese production in the EEC because of direct investment; so far most Japanese investment has gone to the UK, where there are 25 different Japanese plants.
- Technical agreements, and joint research and development, of the type which has led Honda Motor to licence BL to make in the UK the car known as the Triumph Acclaim.
- Japanese "original equipment manufacture" (OEM) exports where a Japanese company makes in Japan goods which bear the brand name of the importer; Victor has such an arrangement with Thorn EMI in the consumer electronics area.
- Joint projects in third countries; meeting for instance process plant contracts; Marubeni and Mitsubishi of Japan are co-operating with Koppels of Belgium to build a fertiliser plant in the Philippines, for example. Japan has joint export insurance agreements with the UK, France and Belgium to facilitate this sort of joint venture.

Generally, co-operation which falls into these categories is welcomed in European government and industry circles. But there are reservations, springing largely from the perception that Japanese companies will use agreements not for joint benefit but to enhance their own competitive position.

This is reflected in a statement last October from UNICE, the European employers' federation. This stressed the need for "balanced co-operation" to develop Japanese technology in the EEC and vice versa.

"Preference should be given to initiatives involving the transfer of technology, especially by allowing European enterprises to have patents or Japanese licences.

"Moreover, joint ventures between European and Japanese companies in third countries should be encouraged, with partners on each side confident that they will get a fair share of opportunities to participate in markets where the other is strong," UNICE said.

Certainly the joint venture idea for third countries has been barely developed. But on the licensing question, Japanese executives would probably respond that Japan is still buying more licences than it sells although the 1960s technological gap between Japan on one hand and the U.S., West Germany, France and the UK on the other has largely been closed.

That mere fact is not sufficient to allay European concern. Generally, the licences Japan has tended to buy have been rooted in basic research, while the Japanese research and development effort hitherto has stressed the application of technology.

It is this which has helped give Japanese industry such a cutting competitive edge in certain sectors. It is also the reason why British officials, for example, have been seeking ways of marrying British research strength with Japanese development strength over the longer term and why they are also anxious to see Japanese companies establishing research and development facilities in the UK.

In European industry the introduction of new technology is seen as one of the criteria to be used in assessing whether Japanese inward investment is desirable. The Confederation of British Industry is seeking to promote an EEC policy which would bracket this criterion with need for a net increase in jobs, the high use of local content and the creation of substantial exports.

Whether Japanese industry would find such conditions acceptable is another question. The repeated delays in the decision by Nissan on whether to establish a car plant in the UK would suggest, at minimum, serious reservations at least so far as local content rules are concerned.

There is the danger that potential investment might be frightened away at just the time there is a sharp upward swing in the trend of Japanese foreign investment.

The latest figures from the Finance Ministry in Tokyo show that in the year to last March direct overseas investment was at a record \$8.9bn, or \$4bn more than the previous highest figure in the year to March 1980.

But investment in Western Europe was clearly not the highest priority. Although it increased over the previous year by 38 per cent to \$798m, it was at a low level compared with the heavy stakes of \$2.4bn in Indonesia and \$2.3bn in the U.S. Within the European total, the level of investment in Belgium, Luxembourg and the Netherlands rose, but it declined in the UK and France.

This investment flow has been taking place against the background of intensified contacts at official level. MITI officials noted that industrial co-operation first appeared in EEC-Japan relations in 1979, while EEC officials observed that interest has quickened since mid-1981 when Japan began to take seriously the pressures for protectionism appearing in the EEC.

Although, at EEC level, contacts are hindered by the lack of an EEC industrial policy, talks have started between MITI and several European Governments to provide the political framework to facilitate corporate decisions.

Talks with the UK have been the most fruitful so far, MITI said. The UK has presented specific proposals at two meetings and MITI believes "lots of progress has been made." On the British side, however, there seems to be a feeling that talks would be more fruitful if Japan went further than mere reaction to proposals.

Paul Cheeseright

EEC-JAPAN: THE FABRIC OF CO-OPERATION

	Capital investment, etc.	Joint R and D	Co-operation in third markets
United Kingdom	**Electronics** Direct investment—Matsushita, Toshiba, Hitachi, Mitsubishi, Sony, Sanyo. OEM contract—Victor and Thorn EMI. Joint venture—Victor, Thorn EMI and Telefunken (FRG). **Automobiles** Technology tie-up—Honda Motor and BL. **ICs** Direct investment—NEC. **Plate glass** Technology tie-up—Asahi Glass, Nippon Sheet Glass, Central Glass and Pilkington. **Computers** Technology licensing agreement—Fujitsu and ICL. **Robots** Sales and technology tie-up—Fujitsu Fanuc and the 600 Group.	XJB—Jet engine for civil aircraft—Rolls Royce and IHI, KHI, MHI. Urban gas manufacturing technology—Asaka Gas and British Gas.	Joint insurance agreement (June 1981). Information exchanges between Engineering Enterprises Federation (EEF) and Japan Machinery Exporters' Association (JMEA) through regular conferences (so far held twice—March and November 1981). Hydro-electric power generating plant for Ghana—Toshiba and Boving. Fertiliser plant for New Zealand—TEC and Capital Plant International. Sea-bed oil development project in Abu Dhabi—Engineering services, Nippon Steel Corpn. and Wallie.
France	**Machine tools** Joint venture—Toyoda Machine Works and HES. **Electronics** OEM contract—Japan Victor and Thomson Brandt. **Aluminum** Technology tie-up—Mitsui Aluminium Industry and Aluminium Pesine. **Lysine** Ajinomoto and Lafarge Group. **Painting ink** Joint venture—Dainippon Ink and Chemicals and Ripolin. **Toys** Joint venture—Brandai and CGJ. **Video cassette tapes** Local production—Sony. **Mopeds** Technology tie-up—Honda Motor and Cycles Peugeot. Technology and sales tie-up—Yamaha Motor and Motobecane. **Carbon fibre** Feasibility study finished, joint production planned—Toray and Elf-Aquitaine.	Expert level exchange agreed to by Japan and France—Science and Technology Co-operation Agreement.	Joint insurance agreement (January 1981). Regular information exchange—GEIF (French Plant Industry Group) and JMEA (so far held twice: May 1980 and March 1981). Port and harbour for Egypt—Mitsui and Co. and SGE. Oil refinery for Saudi Arabia—Chiyoda Chemical Engineering and Construction and Technip. Thermal power generation plant for Nigeria—Marubeni Corpn. and Bonygues.
Italy	**Automobiles** Joint venture—Nissan and Alfa Romeo.	Joint development of YX (civil transport aircraft) by Japan, the U.S. and Italy is in progress.	Regular conferences between Lombardia Machinery Industry Association (ASSOLOMBARDA) and JMEA (October 1981). Oil refinery for Algeria—Marubeni procured equipment from Tobosider.
West Germany	**Automobiles** Tie-up Nissan and Volkswagen. **Computers** OEM contract—Fujitsu and Siemens. **Machine tools** Shares acquisition—Makino Milling Machine and Heidenreich and Harbeck. **Electronics** Direct investment—Sony. OEM contract—Victor and Telefunken. Joint venture (video equipment)—Victor, Telefunken and Thorn EMI. **Medical equipment** Joint venture—Olympus Optical and Winter and Ibe. **ICs** Local production—Hitachi. **Watches** Local production—Seiko group. **Tyres** Business tie-up—Toyo Rubber and Continental. **NC equipment** Sales and technology tie-up—Fujitsu Fanuc and Siemens.	Expert level exchange agreed upon by Japan and West Germany—Science and Technology Co-operation Agreement. Helicopters joint development—KHI and MBB.	Discussion between German Machinery Industry Association (VDMA) and JMEA (October 1981). Dam construction project in Iraq—Toshiba and BBC. Condensor project for Indonesia—Mitusi and Co. and Worthinton. Cold strip mill project for East Germany—Mitsui and Co. and Dilinger.
Belgium	**Electronics** Direct investment—Pioneer Electric. **Plate glass** Joint venture—Nippon Glass and Belgian Government. Direct investment—Asahi Glass.		Joint insurance agreement (June 1981). Regular conferences between the Metal Machinery Industry Federation (FABRIMETAL) and JMEA (so far held three times: September 1979, March 1980 and February 1981). Fertiliser plant for the Philippines—Marubeni Corpn., MHI and Coppee-Rust.
Netherlands	**Plate glass** Direct investment—Asahi Glass. **Lenses** Direct investment—Hoya Corpn. **Audio-visual equipment** Mutual technology assistance contract (VTR, DAD)—Sony and Philips.		Regular conferences between the Machinery Industry Association of the Netherlands (FME) and JMEA (so far held twice: October 1980 and February 1981). Colour TV picture-tube plant for East Germany—Toshiba and Holec Furnaces. Condensor project for Indonesia—Mitsui and Co. and Thomassen. Joint insurance agreement (September 1981).

Source: Ministry of International Trade and Industry, June 1982.

Surge to invest overseas

ALTHOUGH Japanese business currently enjoys an image of moving relentlessly round the globe to acquire or launch new industrial enterprises, Japan still accounts for only 7 per cent of foreign investment by leading industrial nations on a cumulative basis.

That is the figure included in the latest Ministry of International Trade and Industry survey and although it may *already be slightly* out of date Japan is still certainly behind the U.S.'s 42 per cent and Britain's 9 per cent. Japan ranks with West Germany and Switzerland in the next bracket of investors after these two traditional leaders, with cumlative totals of between $25bn and $30bn.

In Japan's case the latest figure is given as $27bn, or the equivalent of $230 per capita. Put like that, it does not seem much to get excited about.

Even if one looks at the comparison between Japanese and other Western direct overseas investments on a current basis, the superficial image of a brash, advancing Japan is still hard to sustain. In the latest figures given by MITI, culled from a variety of official Western sources, the absolute figure of Japanese investment in the latest current year is smaller than either America's or Britain's, and only marginally higher than West Germany's.

Furthermore, as a percentage of GNP this investment figure is only 0.4 per cent in Japan's case, considerably behind Germany, less than half of the U.S. and hardly more than a quarter of the British proportion.

Nor is this advance maintained rigorously every year. In fiscal 1980 there was a 6 per cent fall in direct overseas investment. This was due to a particularly sharp drop in Latin America, although investment increased in the Western countries themselves and in some Asian countries. There were earlier years when investment fell, notably in 1974—as one would expect in the wake of the oil crisis—and again in 1977.

The rationale of this growing investment effort, although building on a very small base looking back ten years or so, is complex. The international recession, together with the structural ageing of the Japanese economy, have led to a *declining profitability of* Japanese industries at home. Increasingly therefore, they seek to compensate by going into foreign markets where higher profits are possible.

The rising cost of Japanese labour is an important factor in this, so that we now see Japanese executives calculating the savings that can be made on the production of consumer electrical goods, for example, in various European countries instead of shipping them from Japan. And the appreciation of the yen has played a significant role in the greater interest overseas.

A recent survey of motivation in foreign investment indicates that the development or secural of foreign markets is still the most important factor, accounting for more than half of the reasons, but labour market advantages come second, availability of raw materials third, and a desire to diversify and internationalise a corporation's operations ranks fourth.

But there is a new and somewhat unexepected reason for the new urge to invest overseas and that is the upsurge of restrictions on Japanese products in a variety of overseas markets. With charges of dumping, import restrictions of various kinds and even the prospect of action by the European Community under GATT for the very vague misdemeanour of withholding from Europe the expected fruits of greater access to the Japanese market arising from the Tokyo *Round, the outlook for* increasing shipments of popular items of consumer goods has palled.

Spreading

Now that this has spread from the relatively simple kind of product such as textiles and household goods to electronics and even cars, the impact of Western protectionism is gravely pondered in Tokyo boardrooms. Inevitably, it adds weight to the internationally-oriented minority among the executives who have been consistently advocating the setting up of subsidiaries overseas.

But other problems then multiply. The Japanese admit that they have an historically weak connection with almost all of the overseas markets where they would like to invest, with the possible exception of some of those in Asia — notably Korea, Taiwan and perhaps *Hongkong and Singapore.* Actually there is a political or cultural backlash in the ASEAN countries and in those deriving from the Chinese tradition because of the Pacific War. But this is something with which *the Japanese now* have had many decades to cope.

Some have become quite successful in dealing with it, and after all they have the advantage of possessing the new technology and the geographically close big industrial power which the host countries wish to tap. But in Europe, or in America, the Japanese are still in many respects at sea, and this comes out either when a company tries to make a totally new investment or when a company which invested several years ago now seeks to expand.

The Japanese corporations face an information gap over their overseas investment markets. Although the trading corporations have a renowned system for collecting information of all kinds from all countries of relevance to their commercial decisions, this does not quite add up in every case to a successful grasp of the situation on arrival at a new investment site.

In particular, knowledge about local management, both management personnel and management methods, as well as the role of the trades unions often eludes the advance party from Tokyo when it arrives in Scotland or Georgia. Sometimes it does not matter, because the personalities on both sides fit and there is a sufficient degree of common objective as well as of energy and determination to make the thing succeed regardless. But the risk of failure or of an insecurely-based original investment remains.

To this must now be added a quite new problem in Europe and America: a hostile local reaction to what appears to be a relatively big presence of Japanese investment. Although the absolute amounts are not truly large, there is a tendency for Japanese investment to "bunch" in particular sectors, especially, in recent years, in the electricals and electronics. This can give rise to a feeling that the Japanese are trying to take over that industry in some particular European or American country and make it more difficult for the Japanese to increase their activities.

In the UK the balance of Japanese investments by industry *happens to be rather good,* so that even in the electronics field there is no serious feeling of being suffocated by them. But the interesting story about Japanese investment in the UK in the past year has been the *progress of the Nissan negotia*tions for a large car plant in one of the development areas.

If this plant were to materialise, it would transform the Japanese investment scene in Britain by putting on the map for the first time a really large plant, whether in terms of value of production, throughput of steel plant or employment. Some admirers of the Japanese management style in the 30-odd cases of investment in Britain so far, including Sony, National Panasonic and YKK, wonder if a Japanese corporation could begin to impose its own way of management or philosophy on such a scale.

Obstacle

The particular obstacle to the success of the Nissan application concerns the ratio of components to be produced in the UK as distinct from those brought in from Japan or third countries. But there are other problems, including the difficulty which the company itself seems to have in making up its mind about its international strategy. There is no doubt that it would be welcome in Britain on several counts; for it would provide employment, earn export income and relieve the pressure on Britain's trade deficit with Japan.

On the other hand there are diehards in the British car industry who would claim that the UK-made Nissans are not to be considered British for market purposes, and there will no doubt be heated arguments about whether the resulting shortfall in the voluntary restraint limits observed by Japanese car manufacturers in their shipments to the UK should be filled after Nissan comes into full UK operation—and, if so, how.

There are ways of avoiding this backlash, for example by spreading whatever odium may attach to the investment among a large number of companies, not all of them Japanese. This has been the strategy of JVC, or Victor Company of Japan. JVC has been led by its own success and the pressure of its importers in Europe to set up plant to manufacture video disc players in Berlin and Newhaven respectively. But the ownership *of these two enterprises goes via* a holding company in the Netherlands to three equal partners, namely Telefunken of West Germany, Thorn-EMI and JVC itself.

It is perhaps instructive to *see which industries go* to which continents. In Europe steel and non-ferrous metals take first place, followed by textiles with electronics third. In North America electronics takes first place, followed by steel and timber. Steel and textiles dominate the Asian picture, followed by chemicals.

But manufacturing, at $844m, remains a relatively small part of Japanese investment in Europe since mining, banking and commerce each account for a similar amount.

In North America, commerce dominates everything else, taking more than a third of the total cumulative figure, while in Asia it is mining of which the same could be said.

Asia and North America share almost equal honours in leading the geographical disposition of Japan's cumulative investment, each with almost $10bn or just over a quarter each of the total. Third comes Latin America with 17 per cent, *and Europe has to settle for* fourth place with 12 per cent or $4.5bn. Smaller amounts go to Oceania, the Middle East and Africa.

The most favoured countries to host Japanese investment are, in order of their importance, the U.S. (with $8.9bn), Indonesia ($4.4bn), Brazil ($2.9bn), Australia ($2.2bn), UK ($2bn), Korea, Hongkong, Saudi Arabia, Iran, Singapore, Canada and Mexico. These were the only countries enjoying in 1980 more than $800m in cumulative Japanese investments.

In the fiscal year ended March 1982 there was an astonishing 90 per cent increase in direct overseas investment to reach a new record of $8.9bn. It was the high interest rates abroad which attracted a good proportion of this record figure. But the goal of developing natural resources overseas was illustrated by Indonesia's jump to the top of the table of investment hosts, with $2.4bn centring *on the big natural gas project* there.

Investments to the U.S. nevertheless were up more than half to $2.3bn, and investments to Europe rose by 38 per cent to reach $0.8bn, although investments in France and Britain actually fell. There was also a decline of investment in the Middle East.

Dick Wilson

A keen eye on export prices

ALTHOUGH Japanese manufacturers like to claim nowadays that foreign consumers buy their products because of superior quality and reliability, value for money has remained one of the keys to the overseas success of most industries.

The main reason why Japanese exports are sold at highly competitive prices would *appear to be very simple.* Competitive pressures inside almost all the main Japanese exporting industries are more intense than counterpart industries in most Western countries, with the result that each company has to do its utmost to retain a price "edge" in order to survive.

An example of how Japanese exporters can vary their price policies according to the market —and according to what an individual company may be trying to achieve—is provided by the situation that has existed during the past few months in various Western markets for Japanese cars. Japanese car prices have tended to rise in the U.S. over the past year because the volume of sales has been limited by a "voluntary" Japanese undertaking arrived at under severe U.S. pressure) in the spring of 1981.

In Western Europe Japanese car exports are also under various kinds of "voluntary" (or in some cases involuntary) restraint. However, actual demand for Japanese cars in some of the markets concerned has caused sales to fall below the levels stipulated in the restraint agreements, with the result that price competition has come into play.

A typical example of a Western market in which Japanese exporters are (by their own admission) competing on price is West Germany. Sales to the West German market were to have been held during 1982 to not more than 10 per cent above the levels of 1981 under an informal arrangement arrived at between the governments of the two countries. Actual demand for Japanese cars, however, has been running at less than the level a year ago.

The research department of one major internationally orientated Japanese bank estimates that Japanese cars have to be sold in the German market at not more than 85 to 90 per cent of the prices set by Volkswagen so as to overcome what remains a continuing inclination on the part of German drivers to "buy German."

The list price of a typical 1.3 litre Japanese sedan type car in the UK has risen about 75 per cent over the last five years (as the accompanying table shows). Japanese car exporters to Britain should theoretically have been in a position to raise their prices fairly rapidly in the UK — given that a "gentleman's agreement," between the Japanese Automobile Manufacturers Association and the UK Society of Motor Manufacturers and Traders has placed a limit on the Japanese market share. In practice, *however,* it appears that Japanese prices have risen rather less rapidly than UK makers' price.

One reason for the competitive pricing of Japanese cars (allowing for differences in extras) cited by the Japanese makers themselves is the division of the UK market into a private buyers' sector and a company car sector. Company

HOW CAR PRICES HAVE MOVED

(Example of one Japanese car maker's price in the UK market for a four-door 1.3 litre saloon)

	Retail £	Per cent change from year ago	List £	Per cent change from year ago
1978 Jan	2,349	+ 9.8	2,010	+10.0
Aug	2,584	+19.6	2,210	+13.5
1979 Jan	2,714†	+15.5	2,344	+16.6
Aug	3,363*	+30.1	2,701	+22.2
1980 Jan	3,363	+23.9	2,701	+15.2
Aug	3,320	−12.7	2,666	−12.9
1981 Jan	3,399	+10.7	2,730	+10.7
Aug	3,470	+ 4.5	2,785	+ 4.4
1982 Jan	3,655	+ 7.5	2,934	+ 7.4
May	3,984†	+14.8	3,198	+14.8

* New model. † VAT up from 8 to 15 per cent.

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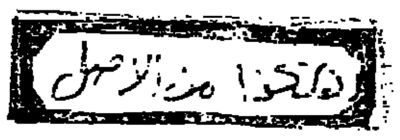

Defence policy may result in friction with U.S.

DEFENCE PROBLEMS have been overshadowed by trade issues this year in the minds of almost everyone concerned with the bilateral relationship between Japan and the U.S. However, defence may well have the greater long-term potential as a source of friction between the two nations.

The reason for this is that while trade problems by their very nature are susceptible to being dealt with by "emergency" measures such as the introduction of import liberalisation packages, it takes time and patience to increase a country's defence capacity.

Japan will almost certainly be trying hard over the next few years to increase its ability to defend itself—and particular to acquire the enhanced air and naval capabilities that U.S. defence experts think it needs. Whether it will be doing this fast enough to satisfy Washington, or the various Washington lobbies that keep a close eye on Japan's defence spending, is another question.

The theoretical framework within which Japan conducts its defence policy is provided by a Defence Programme Outline, published in 1976, which states that the country should be able to defend itself against a limited external threat while maintaining forces that could provide the basis for defence against a bigger attack in co-ordination with the U.S.

Provisional

The 1976 outline includes a provisional list of equipment that might be needed to reach these objectives but detailed implementation has depended, up to now, on a series of overlapping "mid-term programmes," each of which has had a five-year life. One reason why Japan's defence policy can be said to be at a crossroads in 1982 is that the Defence Agency is in the final stages of preparing a new mid-term programme which will run from 1983 to 1987 and which in theory should lead to the final realisation of the targets set out in 1976.

Officials at the Ministry of Finance who have been working with the Defence Agency on the draft of the new programme say it will almost certainly incorporate a much larger target figure for spending on main defence equipment than the Y2,700bn which was written into the last (but now to be superseded) five-year programme.

The increased bill for military hardware reflects the agency's desire to boost Japan's offshore defence capacity by, among other things, increasing its planned procurement of F-15 fighters, stepping up surface naval strength and investing in a new air defence system. The doubt about all these proposals is whether the Cabinet will feel there is enough money to fund them in the context of the extreme fiscal stringency the country is now facing.

Defence has been a favoured item in Japan's recent budgets, attracting a much larger annual increase in spending than purely domestic programmes such as education or welfare. It will almost certainly continue to be favoured over the next few years despite the claims of opposition politicians that the government has been "caving in" to pressure from Washington on the defence issue.

JAPAN'S DEFENCE BUDGET

	(Y bn)	Growth from previous year (%)	Ratio of defence budget to GNP (%)
1975	1,327.3	21.4	0.84
1979	2,094.5	10.2	0.90
1980	2,230.2	6.4	0.90
1981	2,400.0	7.6	0.91
1982	2,586.0	7.8	0.93

Even if this is so, Japan may well face difficulties in maintaining the year-to-year percentage increases that have been achieved so far—and thus also in funding anything like the whole of the programme that the Defence Agency is to propose in its new plan.

The actual arithmetic of recent defence budgets—and of probable or possible future expenditure—runs something like this: in the 1982 fiscal year Japan undertook to increase its defence spending by 7.75 per cent over the previous year's level to a grand total of Y2,586bn, or 0.93 per cent of GNP—assuming that GNP grows at the 5.2 per cent rate which the Government has forecast for the year. For the 1983 fiscal year the Government will be faced with an "automatic" increase in defence spending of just over 6 per cent on the basis of equipment programmes that have already been authorised.

To limit the budget to a 6 per cent rise would mean authorising no new programmes for the coming year and thus, in effect, giving up the idea of trying to achieve a further qualitative improvement in Japan's defensive capacity during the first half of the 1980s. But to allow the defence budget to rise by much more than 6 per cent would be politically controversial in a year when expenditure on almost all other items in the budget is likely to be frozen at 1982 levels if not actually reduced.

The best guess that can currently be made about Japan's defence spending in 1983 and thereafter is that the government will approve the introduction of some new programmes and that spending will be allowed to rise by more than the "automatic" margin of 6 per cent, although perhaps not much more.

Resolution

If this turns out to be right, a second question about Japan's defence may come to the fore. This relates to the problem of how the government can or should divest itself of its commitment to maintain defence spending at less than 1 per cent of GNP.

Defence experts have frequently pointed out that the 1 per cent commitment, which dates back to a Cabinet resolution of the early 1970s, is meaningless in that Japan's defence spending, if computed according to the formula used by most Western nations, already works out at around 1.4 per cent of GNP. (The difference lies in whether or not items such as retirement allowances for Service personnel are included in the calculations.)

Commitment

The fact remains, however, that the commitment has become a popular symbol of Japan's intention not to place excessive emphasis on military power and so the figure could be hard to get rid of. The moment of truth, when the defence bill rises above the ceiling, could well come during the next three years and will tax the political ingenuity of whatever Cabinet is in power at the time.

The emphasis which Japan itself places on the size of the defence budget and on its relationship with GNP is subtly different from the current U.S. approach to the question of what should be happening to Japanese defence policy. Under the Reagan Administration a deliberate effort seems to have been made to relegate the "numbers approach" which characterised the Carter era and to talk instead about "qualitative" improvements in Japan's ability to defend itself. One "qualitative" improvement in which the U.S. appears particularly interested involves the ability of Japan to defend sea lanes in the North West Pacific—particularly those leading southwards to the Philippines and Guam.

U.S. official spokesmen have been claiming recently that Japan has already committed itself to acquiring the capability to defend its sea lanes to a distance of 1,100 nautical miles from Japan's coasts (although no time limit seems to have been set for achieving this). Unofficially, the Administration has gone on to suggest that a 10 per cent annual rate of increase in Japanese defence spending might be needed to achieve this target.

One direction in which the U.S.-Japan defence relationship may develop without significant friction involves the exchange of defence technology for joint development of weapons. The notion that there should be a two-way flow of defence technology between Japan and the U.S. instead of the one-way flow that has existed up to now, was first aired by U.S. defence officials in the summer of 1981. The idea received an immediate if cautious welcome from the Japanese government.

In theory, the notion that Japan might get involved in a joint arms development programme with any other nation conflicts with the government's stated policy of banning, or at least very strictly controlling, arms exports. In practice, it looks as if an exception might quite easily be made for the U.S. by virtue of the special defence relationship the two countries already enjoy, within the framework of the U.S.-Japan Security Agreement.

Collaboration in weapons development would inject a positive element into the U.S.-Japan relationship at a time when problems could well be cropping up in other sectors. However, some U.S. officials appear to believe that it might also create a precedent for Japanese collaboration in weapons development with other nations.

Whatever course Japan's defence policy follows over the next few years, it seems likely that there will continue to be basic agreement between Tokyo and Washington about where things should be heading combined with fairly continuous disagreement about the details.

Charles Smith

Export prices

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buyers are allowed a virtually automatic 15 per cent discount by UK car manufacturers who accordingly have to recoup themselves on the private sector of the market with relatively high prices. Japanese car makers concentrate their sales in the 40 per cent of the market that is represented by the private sector and consequently have no recouping to do.

Despite the fact that they aim to maintain their prices at highly competitive levels Japanese car exporters claim that they go to great lengths to avoid cutting their list prices in situations where demand fails to come up to expectation. Reducing the list price of a car, according to one exporter, can result in a quick boost to sales but will sooner or later damage the exporters position (when lower list prices are reflected in a fall in second hand prices).

Excess stocks of cars in a given market are accordingly unloaded by phasing of retailers' discounts or by enlarged dealer margins. The only European market where Japanese car makers admit to regularly selling their cars at "dumped" prices is Denmark — a country apparently used as an "overflow" by European as well as Japanese manufacturers.

Japanese car makers arrive at export prices for their cars (and for that matter at domestic prices) by a process which one country describes as value analysis. This consists in essence of attempting to place a new car in the market's existing price structure by means of a detailed review of the price and performance of similar cars. Once a company has arrived a notional price level for a proposed new model (or model modification) in a given market it will work back from this point in a cost analysis exercise to discover whether the car can be profitably produced at the proposed price.

In calculating their export prices against their production costs most Japanese industries have to include a forecast for the yen-dollar exchange rate (or for the exchange rate of the yen against whatever other currency the product is to be sold in). This need arises from the fact that a minority of Japanese exports are sold in terms of Japan's domestic currency. The custom of pricing exports in dollars means that Japanese exports do not automatically become cheaper when the yen depreciates (as it has been doing recently). It may mean, however, that the ability of certain industries to export at a profit depends on the level of the exchange rate.

Many of Japan's strongest industries are thought to be capable of selling abroad with the yen priced at less than 200 to the dollar (in other words in a strong exchange rate situation). The Japanese textile industry (which only two decades ago provided the backbone of the nation's export effort) belongs at the opposite extreme but with the yen at roughly one dollar equals Y250, even the textile industry can export profitably.

Japanese exports should be more competitive today than at any time during the past two years. The only thing that seems to be lacking is the ability of foreign consumers to buy them.

Charles Smith

Diplomatic moves to ensure supplies of raw materials

JAPAN'S DEPENDENCE on far-off and very unpredictable raw material suppliers to keep her massive economy churning out its annual volume of cars, ships, steel and electronics, has been bolstered by a large measure of good fortune.

Throughout the past tumultuous decade, only through a chancy combination of luck and effort has Japan managed to secure resources at a price and a pace to satisfy her manufacturing industries.

In recent years, however, Japan has been striving to establish a network of interdependencies — political and economic — with resource-supplying countries, to ensure a greater measure of predictability to raw material flows. Given the wide variety of countries on which Japan depends and the vastly different sets of variables affecting output in each, Japan's diplomacy faces a great challenge and one which has still only partially been met.

There is no underestimating the vulnerability of the Japanese economy. While other industrial countries may share some similar weaknesses—France's independence on imported oil or Germany's on non-ferrous metals, for example—the composite picture of Japanese dependence is staggering by contrast. Japan is more than 90 per cent dependent on overseas supplies of 11 out of 17 key raw materials.

For just the fuel alone to run the economy, 87 per cent must be imported and virtually all the necessary oil. To keep key industries flourishing, steel for instance, 99 per cent of the iron ore must be imported. The entire supply of vital minerals, such as nickel and aluminium, ore must be bought abroad. Even to meet the national dietary need for a key food, soyabeans, fully 95 per cent comes from foreign suppliers.

The real measure of vulnerability is just how costly and difficult it is over time to alter the policies which affect import dependency. Unlike the U.S. and the European countries, Japan has very few historical ties with most of the countries she depends on and almost no political links to give her leverage in influencing her suppliers. Having only recently emerged as a global power, Japan finds that her diplomatic skills are relatively underdeveloped.

The state of relations with Opec is the epitome of the dilemma. Since the 1973 oil crisis first sent shock waves through the Japanese economy, government and industry have tried, through a triple-stranded strategy, to maximise national manoeuvrability in the Middle East. The goal has been to intensify interdependencies with Opec through massive Japanese investment in industrial development schemes; to lock oil supplies into more secure contracts through so-called GG (government to government) arrangements; and to improve Japan's image in Arab eyes, by adopting a more independent position—ie slightly less American-aligned—on the contentious issues surrounding the PLO, the Egypt-Israeli Treaty and so on.

Shortly after the first oil crisis, visits to the Middle East by Mr Takeo Miki, Deputy Prime Minister, and MITI's head, Mr Yasuhiro Nakasone, produced a string of promises for assistance in development schemes, much of it centring on petrochemical projects. In hand with intensive export drives by Japanese manufacturers, aggressive bidding for industrial contracts has given Japanese companies a prominent role in supplying such needs as power generating plant for the region and turnkey factories

In trying to develop friendlier ties with the Arab producers, Japan has walked a narrow diplomatic tightrope. While on the one hand trying to appear supportive of the Arab positions on regional conflicts, Japan on the other has been unable to escape the political pressure to act in concert with the U.S.-Japan's waverings were shown in her consistent qualifications of support for the Egypt-Israel Treaty.

Somewhat impatient with the limitations of bilateral efforts, since these are unable to provide immunity to such flare-ups as the Iranian revolution or the Gulf War, Japanese diplomats have become increasingly open to the idea that Japan may play a role in promoting regional stability — the ultimate guarantee of oil supplies—through participation in a rapid deployment force or in working together with the Europeans to help U.S. peace settlement efforts.

Even when the major resource supplier is a close ally and delicate political manoeuvering are unnecessary, the effort to ensure that supplies flow smoothly can be taxing. This is clear in the case of food imports, the bulk of which come from the U.S., Japan's geography has left her ill-equipped to provide for her own food needs, and the so-called Westernisation of the Japanese diet (to include bread and beef) has made her particularly dependent on imported grains.

Japan is only 6 per cent self-sufficient in wheat and although producing most of her own meat does so only at the cost of more feed grain imports. In terms of grain, Japan has a self-sufficiency rate of only 34 per cent, compared to 68 per cent in the UK and 83 per cent in West Germany.

Japan's food security nightmare evolved during the early 1970s. In 1972 the Soviet Union moved into the world market as a major and unpredictable buyer; in 1973 the U.S. embargoed soyabean exports without prior warning to Tokyo: and in 1973-74 a global food shortage followed.

A year later, Japan's Agriculture Minister, Mr Shintaro Abe, worked out a "gentlemen's agreement" with his American counter-part promising that the U.S. would hold 18m tons of grain for ready shipment to Japan. To a certain extent this eased Japan's immediate fears. Consultations on food shipments and supplies now take place on a regular basis and Japan has set up the mechanism for annual talks with Australia and Canada.

Although with only limited hopes for success, Japan has been diversifying her food suppliers by investing heavily in agricultural projects in Brazil and the current government has made such projects an important part of its overall economic co-operation plans in Asia.

In searching for secure mineral suppliers in the Third World—for copper, zinc, lead, bauxite, uranium and other minerals—Japan has significantly less assurance of political reliability, but sometimes slightly greater influence. The dependency is often mutual, with the exporter in need of an assured market in Japan.

One Japanese approach in the Philippines, which sends 77 per cent of its copper to Japan, has been to lubricate the flow with production incentives, such as loan finance in exchange for long-term contracts. Currently about half of the copper imported as ores and concentrates is under such contracts from mines such as Atlas, which was developed with Japanese capital.

One drawback of such schemes is that Japanese trading houses often find themselves locked into long-term purchase agreements at the very time that demand is dwindling owing to the world recession. Attempts to escape from copper and zinc contracts in the past have put Japan under great diplomatic duress.

Faced with this set of unpredictable and challenging resource dependencies, successive Japanese governments have floated ideas on ways to anchor Japan to some kind of broad economic security framework. The Ohira Government mapped out a future for Japan in the evolving nexus of interdependencies in the Pacific Basin.

Advocates of a Pacific Basin Community emphasised the richness of regional reserves of such key items as iron ore (5[illegible] per cent of the world total), copper ore (59 per cent), lead (58 per cent), nickel (57 per cent), zinc (45 per cent) and tin (74 per cent). Collectively, the region could serve as the repository for many of Japan's resource needs, assuming at the same time that Japan took a lead in providing the capital and technology for development.

The present Government still holds to the target of increasing Asia's share in total energy supplies to 30 per cent by 1990. Pacific energy plans emphasise coal as well as a nuclear fuel cycle, using the rich Australian deposits. Japan is already heavily involved in developing these. Another clear fruit of Pacific co-operation is Japan's strong commitment to tap natural gas in Indonesia and Brunei at a commercial level.

Maureen Whit[e]

OVERSEAS DEPENDENCE OF MAJOR COUNTRIES ON KEY RAW MATERIALS

	Japan	U.S.	West Germany	UK	France
Coal	79.2	9.6†	8.7†	1.6	57.0
Oil	99.8	42.3	95.8	18.9	99.0
Natural gas	88.7	5.8	65.8	19.5	68.8
Iron ore	98.6	29.7	96.9	80.7	44.4
Timber	69.2	3.8	20.7	72.9	16.0
Cotton	100.0	84.4†	100.0	100.0	100.0
Wheat	93.0	147.1†	0.8†	25.4	80.2†

† Exports surplus where country is more than self-sufficient.
Source: MITI, White Paper on Trade, 1981.

Trading companies growing

JAPAN'S TRADING companies built their reputation and strength on direct bilateral trade between Japan and the outside world. They achieved pre-eminence by operating on remarkably narrow margins on a huge volume of transactions, and they were highly geared for the purpose.

Over the past few years the thrust has changed, at first imperceptibly but now with great speed. Today it is possible for a relative newcomer to the charmed circle of trading company president, Ikeda Matsujiro of Marubeni Corporation, to define the priorities in a quite different way.

These are, in his definition, international co-ordination of projects, exports to the developing countries, the development of new raw materials and energy resources, and, finally, the fostering of a complex network of equity involvement in worldwide business.

The discerning will at once spot the potential weak area in this new schedule. It is the effectiveness of Japanese managers in co-ordinating international projects and business involving counterparts from numerous other countries and cultures, using different languages. Can the Japanese trading company internationalise itself to the point of building up an adequate corps of non-Japanese executives, familiar with the parent company's procedures and able to communicate with its head office and other offices around the world?

None of the trading company leaders are more conscious of both the need and the difficulty of achieving this than their senior representatives in London. Mr Funaki Yoshimaro, Deputy General Manager of Mitsui's London branch, declares that the Japanese trading companies must "bring capable non-Japanese members into our unique international teamwork of co-ordination without losing its established high standard of efficiency in communication and mutual understanding."

The companies have, of course, trained several of their executives from Britain as from other countries in Japanese, but this language is not something which can be acquired merely through a six-month course. It needs an absorption for several years into Japanese society, which not many foreign commercial recruits are eager to pursue.

C. Itoh, one of the most active trading corporations, has about 1,000 Japanese executives overseas, and 3,000 local employees. It operates 138 offices throughout the world, linked by telex or leased telecommunications which allows information to be transmitted to all these offices simultaneously, and 24 hours a day.

The nine major trading companies achieved a turnover of $334bn in 1980, which represented 1.7 times the Japanese national budget and one-third of the GNP. They took responsibility for 56 per cent of Japanese imports, but only 49 per cent of Japan's exports.

To transfer technology, the trading company has to have somebody who knows something about it. These pressures have finally led Mitsubishi to create a new Technology Affairs Department. It is already involved with Batelle; the American science and technology institute, and the small band of scientifically qualified men in its new department can look forward to becoming more important in the future.

If the rich areas of Japanese exports are being withheld from the trading companies, and if the development of the Japanese economy itself is not enough to sustain the kind of growth which the trading companies require, then the so-called offshore or third country trade is an obvious candidate for special attention.

In this area there has been a dramatic growth. Tozaki Seiki, President of C. Itoh, declares without any hesitation that his company can double its offshore trade over the coming three years. Last year the level reached was $7.9bn, and this year the plan is $10bn—rising by 1984 to a target of $16.5bn. These figures mean that the offshore element in C. Itoh's total overseas trade including bilateral trade will rise from just under a quarter to about 30 per cent.

The products which are involved here are steel and non-ferrous metals, chemicals, oil and oil products, foodstuffs, textiles and shoes, to take the most active lines. Chemical plant and machine tools are also currently growing fast.

C. Itoh has an overseas plant information centre in London which maintains constant contact with European manufacturers in order to form Euro-Japanese consortia to bid on various kinds of international project. This is where the offshore trade and the new role of co-ordinating international business merge. A good example would be the Philippine fertiliser plant in which manufacturing companies from four nations, Japan, Spain, Belgium and the Philippines, recently came together under the co-ordinating baton of a Japanese trading company in order to meet the contract. The trading company is the prime mover in putting everything together, including the financing and negotiating.

The offshore trade might conceivably come to be regarded in the future as an indicator for the relative efficiency of different countries in exporting. This comment is particularly inspired by the American statistics. It seems that U.S.-based subsidiaries of the nine major Japanese trading companies handled exports valued at over $22bn to overseas countries in 1980.

Most of this, naturally, was to Japan, but more than a quarter of it was to third countries. The Japanese reckon from all this that they, through their trading companies, are responsible for about one-tenth of worldwide U.S. exports.

In China, to take another example, where exporting technique and experience is poor, one of the Japanese trading companies alone estimates that it handles a tenth of the total bilateral trade between Japan and China. Furthermore, it is exporting more and more Chinese products to third countries — chemicals and pharmaceuticals to South and Southeast Asia, textiles to Europe and North America. In the future it hopes to sell Chinese ships, textile machinery and machine tools.

All this dictates a much more creative role than the trading companies had assumed in the past.

Monopoly

In a recent contract for a Nigerian power station, a leading Japanese trading company arranged for supplies from four continents, including equipment from France, Canada and Indonesia. A trading company president, asked to name a country in which his company was not represented by a branch office, he had to think for several moments before coming up with a tentative "Perhaps Mali?"

The final question must be whether Japan will retain a monopoly over this kind of international trading company now that its advantages increasingly appreciated elsewhere. Several governments have committed themselves to legislation of various kinds setting up local versions of the Japanese trading company. These include not only Brazil, Mexico and South Korea but even the U.S. Malaysia has just announced its second multinational trading house called Mattra.

The biggest obstacle is the financial one. The financing which a Japanese trading company gets from its banks at home can represent up to 30 or 40 times its own capital. "Foreign banks could never do that," a Japanese trading corporation man observes. One comment often heard in Tokyo is that would-be imitators would have to become nationalised to acquire the financial backing that is required.

Dick Wilson

Foreign label exports play large part in West's trade

FOREIGN LABEL exports (or Original Equipment Manufacture exports, as the Japanese prefer to call them) play an important, if submerged role in Japan's trade with Western countries. The products that are sold under OEM contracts cover a wide range but the main emphasis seems to be on audio equipment, small-size colour TV sets or video tape recorders. Such items are made in Japan by a manufacturer who obligingly agrees to remain anonymous, and are sold in Western markets under the label of a well-known European or U.S. manufacturer.

Almost every major Western electronics manufacturer is involved in OEM trade with Japan although the ratio of dependence appears to vary sharply from one company to another. Among Japanese manufacturers there are companies which deliberately followed an OEM strategy from the start and others which have entered the business only for special reasons and in isolated instances. OEM, however, has become an integral part of the complex network of relationships that binds together electronics manufacturers in different parts of the world.

Making hi-fi loudspeaker cabinets for export. Companies involved in foreign label manufacture accept that there are risks because most contracts are for single orders

According to the Western companies involved, there can be many reasons why products are sometimes "bought in" from an outside supplier rather than produced in the company's own factories. The majority of major electronics manufacturers nowadays like to offer a full range of products to the market, but may not necessarily choose to spread their own manufacturing or design resources so widely.

Strong lead

Products that are bought in rather than made by the company itself may tend to be those for which demand can fluctuate sharply—audio equipment is a case in point.

Alternatively, they may be items in which the Japanese electronics industry has built up such a strong lead that there seems little point in trying to compete. Many European TV manufacturers now apparently buy in smaller sets from Japan for this reason although continuing to make the larger screen sizes in their own factories.

Japanese companies have embarked on the OEM business for a number of different reasons. According to one maker, OEM contracts represent an easy way of "loading" a production line to its full capacity soon after the launch of a new product. Another reason is so that companies can catch up with their rivals in overseas markets.

Sony Corporation (a company which originally tried to avoid OEM sales) made an early start in the U.S. as an exporter of transistor radios (in the late 1950s) but was rapidly overhauled by Sanyo Electric after Sanyo signed up a series of U.S. companies as OEM customers.

In the case of video tape recorders where two rival Japanese "systems" compete with each other for supremacy, OEM contracts were used from the start as means of speeding market entry. Sony's contract with Zenith (signed in February 1977) marked a significant departure from its traditional policy of selling only under their Sony brand name in world markets. The same could be said for Matsushita which followed Sony a month later in signing up RCA as an OEM customer for its VHS system.

Although many Japanese manufacturers see OEM as a quick and easy way of entering Western markets, most companies also acknowledge that it can be risky. Contracts for OEM purchases of consumer products usually take the form of single orders for a certain number of items. This may or may not be repeated depending on the "forecasts" of the Western company's needs over a relatively short period — say six months. In either case the Japanese company runs the risk of being "dumped" without much warning.

Because of the dangers few Japanese companies would choose to be more than 50 per cent dependent on OEM orders (although some may exceed this ratio). Many companies, may start out as OEM exporters with the ultimate objective of launching their own brand in a foreign market, but sometimes this process can work in reverse.

One of Japan's largest and most famous manufacturers of consumer electronics products is said to have become more interested in OEM exports recently because demand for its own brands has shown signs of reaching saturation point.

Japanese companies that are specialists in OEM manufacture emphasise that there are skills involved in "ringing" the changes so that one basic product design can be used to meet the requirements of different customers. Another skill is that of organising a flexible production system.

Variations

Sanyo Electric — one of the leading OEM "practitioners" in the Japanese electronics industry, claims to be able to turn out as many as 250 variations per year from one colour TV factory working on the formula of one model per day.

Although OEM exports originated in the consumer electronics industry, the practice seems to have been spreading recently to other sectors—notably to the professional or non-consumer electronics industry. Major Japanese computer makers such as Hitachi and Fujitsu have entered into what are to all intents and purposes OEM export contracts for computers with companies such as National Semi-Conductor and Olivetti (in Hitachi's case) or ICL (in the case of Fujitsu).

OEM purchasing was resorted to for the first time by the giant American computer company IBM at the beginning of 1981 when it placed a contract for facsimile machines with Minolta. IBM has since also ordered robots from Sankyo Seiki. The relative openness with which IBM and some other big American companies have entered the OEM business contrasts with the reticence shown by many European companies.

A final point that can be made is that OEM also occurs in Japan. The country boasts eight major brands of refrigerators, but has only five makers. The difference is made up by the supply of refrigerators on an OEM basis by the five companies which are manufacturers to the three which are not. Japanese electronics companies such as Sony and Toshiba have been known to place OEM orders for consumer electronics goods with makers in other Asian countries although in most cases with companies in which the Japanese purchaser has capital stake.

It would appear from this that OEM trade can flow in any direction, and that there is no real limit to the type of product involved. So far, however, it has tended to be used as a vehicle for easing the entry of Japanese products into foreign markets.

Charles Smith

Fear of restrictions maintains voluntary export restraint

ABOUT 20 per cent of Japan's exports are sold under some form of voluntary restraint, it is commonly believed in Tokyo. The words are a euphemism for an informal agreement under which Japanese companies agree to hold back sales to a particular market.

But the voluntary element is more apparent than real. The companies agree to the restraint because they fear that worse restrictions will be imposed if they do not. The buyer is stronger than the seller.

Japanese industry has had to face such restraints since its re-birth after World War II. In 1955 the U.S. Government insisted on Japanese companies voluntarily restraining cotton blouse exports, and by 1961 it had been estimated that nearly a third of Japanese exports to the U.S. were under voluntary restraint arrangements.

Nothing has changed. Japanese car manufacturers agreed to hold exports to 1.68m in the year to March 1982 and the same level will be held for the year to March 1983. The restraint was undertaken in the face of mounting pressure in the U.S. Congress for formal restriction with the Reagan Administration caught in the middle, reluctant to tangle with Congress.

Over the years the voluntary restraint net has spread wider to the extent that it is now called the new protectionism, operating outside the disciplines of the General Agreement on Tariffs and Trade (Gatt). It is a favoured means of holding back imports because it is informal, defying the spirit of the Gatt disciplines, but not the letter, working at industry rather than Government level.

"The majority of cases are in the U.S. and the EEC," noted an official at the Ministry of International Trade and Industry in Tokyo, "Often they are in industries which are on the same technological level and they tend to be where industries are directly competitive."

Precise numbers are difficult to pin down. The very informality of the restraints are not always publicised although there are obvious cases.

In the car industry Japanese manufacturers have agreed with their UK counterparts to hold sales down to a percentage share of the market, while numbers of units are used to put a ceiling on exports to Belgium. In West Germany, local manufacturers are advised of expected Japanese sales.

But such informal arrangements may be better from the Japanese manufacturer's point of view than the formal quota which exists in Italy or the ban on the import of certain types of vehicles by Taiwan.

Machine tool manufacturers in Japan exercise their restraint in a different way. They operate a price cartel which puts a floor underneath prices. But this does not necessarily hold back sales. Strong demand during fiscal 1981 led to a 41 per cent increase in U.S. sales by Japanese manufacturers to \$715m, MITI officials noted.

Repeated

In the British case, some 25 per cent of imports from Japan are covered by voluntary restraint agreements. The figure used to be 30 per cent, but the amount of uncovered exports has increased. The restraints stretch into consumer electronic products like televisions and music centres.

The British case is repeated with variants throughout the EEC, but one of the by-products of the restraints, when allied to national sysetems of quotas, is to weaken the EEC position in its dealings with Japan. Member states will not give up their particular arrangements unless there is comparable protection from the EEC.

But devising an EEC regime is difficult in the face of differing trade philosophies among the member states. So although the EEC is supposed to have a common external trade position, it is a position without a hard policy.

The fear in EEC countries about the competitiveness of Japanese exports in sectors like motor vehicles and electronics has been increased by the pressures of the recession. The vigorous expression of this fear has found a response in Japan.

"In the immediate short run, orderly and prudent market behaviour on certain product lines should be maintained," the Keidanren, the Japanese employers' federation, urged on the Government last April.

There seems to be no disposition to disagree in the Government, but trade diplomats have observed that industries are not always amenable to official pressure for restraint. Where an industry has developed in close relations with MITI, like shipbuilding, it is readier to accept guidance than a more independently-minded group like the car manufacturers.

Indeed, a year before the car industry responded to U.S. pressure for restraint, the Japan Foreign Trade Council, representing the big trading houses, was advising the Government to use its influence to hold back the exporters.

The Foreign Trade Council in fact urges the concept of orderly marketing, which is distinct from espousing formal agreements on sales. It means that products should not be recklessly pushed into markets, but that careful attention should be paid to what the market can bear both in economic and political terms.

Although the Japanese export push this year has slowed, it seems likely that Japan's trading partners will not reduce their pressure for restrained marketing. Indeed, the need for this is mentioned in the EEC's dispute with Japan being played out in the Gatt at Geneva.

"The Japanese authorities are requested to provide tangible assurances that, from 1982 onwards, Japan will pursue a policy of effective moderation towards the EEC as a whole as regards Japanese exports in sectors where an increase would cause significant problems, notably passenger cars, colour television sets and tubes and certain machine tools, including numerically controlled lathes and machining centres," said the EEC representation.

It is in these areas that restraint has been exercised, but it is possible that demands for restraint will stretch into other areas like electronic components, computers and video tape recorders, not only in the EEC but in the U.S.

Vigorous

In the face of such pressure it might be expected that the Tokyo Government would adopt a more vigorous attitude in forums like Gatt to pursue the free trade policies it espouses and which are defied by the voluntary restraint agreements.

But officials ruled this out despite the fact that they argue Japan is as much sinned against as sinning. The reason is clearly the general tension which surrounds Japan's trading relations and the desire not to raise antagonism at a time when Japan's own importing procedures are under scrutiny.

The cautious approach may also be related to the fact that although it is in Japan's economic interest to have easy access to foreign markets, restraints are not as significant in holding back sales as the impact of the recession.

At the same time the threat of restraints eroding established market shares may be a catalyst for greater Japanese direct investment. U.S. analysts have noted that while the car restraints on the U.S. market were being planned, Honda Motor and Nissan Motor decided to build plants in the U.S. for, respectively, cars and light trucks. And since then, Toyota has held discussions with General Motors about a joint small car venture.

Paul Cheeseright

JAPAN X

Concern at fluctuations in value of the yen

UNDERVALUATION OF the yen has made Japanese exports even more competitive than they might normally have been during much of the past year. It has also created serious problems for the Japanese economy as well as for many other countries.

Japan attributes the yen's weakness, mainly against the U.S. dollar, to the impact of U.S. interest rates on capital flows in and out of the country. European currencies weakened even more than the yen in 1981.

Japanese monetary authorities have strongly denied charges by some overseas critics that they were deliberately keeping the yen's value down. But the stepped-up dollar-selling intervention by the Bank of Japan since April this year in an effort to support the yen was partly designed to answer that criticism. The intervention failed to prevent the yen from falling to a two-year low of well below Y250 to the dollar shortly after the Versailles summit in early June.

Until late last year there were widespread expectations among Japanese officials and bankers that the yen, which had fallen to Y247 a dollar by last August, would regain strength, reflecting Japan's fast-improving current acount (a $4,770m surplus in 1981 against a $10,746m deficit in 1980) and very low rates of inflation (4.7 per cent in 1981) and unemployment (2.2 per cent in the same year).

Recover

The yen did recover to around Y214 to the dollar in December and the Bank of Japan lowered its official discount rate to 5.5 per cent from 6.25 per cent to stimulate the Japanese economy into recovery. It was explained at the time that the measure was not intended to weaken the yen.

The stance changed early this year, when the Japanese currency began to weaken again. The Finance Ministry produced new long-term capital account figures for 1981, separating "ordinary" transactions from foreign capital movements in and out of gen-saki trading (a bond market under repurchase contracts). The new statistics showed that the heavy outflow of long-term capital intensified during the latter half of 1981.

The capital outflow mainly reflected interest rate differentials (6 per cent on average compared with the EEC and 4½ per cent with the U.S. in 1981 according to an EEC survey). The outflow accelerated early this year, when Japanese investors sharply increased their investment in "zero-coupon" bonds—discount bonds issued chiefly in the Eurobond market to circumvent the "green card" plan.

The green card plan is a saver identification system to be introduced in two years' time to put a stop to widespread abuse of tax-free for small savings and investments. Apart from the foreign exchange risks involved, zero-coupon bonds not only promised high income gains but were virtually untaxable under the Japanese system

Alarmed by the development, the Finance Ministry unexpectedly imposed a total ban on the sales of zero-coupon bonds in Japan early in March. The Ministry applied administrative guidance for this purpose, because it had no authority to take such a step under the new Foreign Exchange Control Law, enforced about a year before, without invoking the so-called "emergency powers."

The yen weakened further, falling to around Y240 to the dollar in March, as it became apparent that Japan's economic performance was not so good as it used to be. Official statistics showed Japanese exports slowing, while Japan's GNP declined by 0.9 per cent in the last quarter of 1981 from the previous quarter.

This was followed by the prospect that the Japanese Government would incur huge national tax revenue shortfalls. One estimate puts them at Y8,000m in fiscal 1981 and fiscal 1982—probably entailing the flotation of huge amounts of deficit-covering bonds.

As the Versailles Summit approached, it was feared that Japan's economic policies might become a target of criticism there. A heavy intervention by the Bank of Japan briefly succeeded in helping the yen to recover from Y248 a dollar in mid-April to Y231 on May 26, but the currency soon fell again to Y245 just ahead of the Summit.

Since last March, the Bank of Japan has also been guiding Japan's short-term interest rates upwards to narrow differentials with U.S. interest rates, despite the wish of some Japanese government leaders to lower interest rates to boost the national economy.

Comply

Along with the heavy dollar-selling intervention by the Bank of Japan, the Finance Ministry requested Japanese life insurance companies to apply self-restraints to their investment in foreign securities, including U.S. government bonds. Insurance companies had to comply with the request, because they are under official controls of the Finance Ministry in many other areas.

Foreign exchange dealers say the wide fluctuations in the yen's value have also been attributable to a sharp increase in the volume of trading in yen-dollar exchange, both in Japan and overseas, since the new Foreign Exchange Control Law took effect in December, 1980. The trading volume now totals an estimated $12,000m a day, about half of which is done overseas.

The volume of Euro-yen, Japanese currency held overseas as deposits or loans, is believed to have doubled to more than $20,000m. On the other hand, Japanese markets are still subject to official and unofficial controls, which do not leave them open to market forces.

This gives international operators the chance to anticipate what Japanese authorities are going to do and speculate accordingly, although Japanese officials are now trying to resort to unpredictable "guerrilla tactics." Some dealers assert that removal of the controls would smooth exchange rate fluctuations, which often swing sharply one way at present.

Three options seems to be open for Japanese policy makers, observers say. They can continue their present policies of reduced piecemeal intervention and limited controls over capital outflow, while sticking to their fiscal retrenchment stance, and thus wait until U.S. interest rates decline or the yen stages a natural recovery in anticipation of a new upsurge in Japanese exports. Or they can invoke their "emergency powers" to restrict capital outflow and take steps to encourage capital inflow, while stepping up intervention.

Such a course can be taken only as the last resort, because it will run counter to U.S. demand that Japanese banking and service industries should be opened wider. It could also become unnecessary, if the U.S. complies with a long-standing Japanese request for co-ordinated intervention, to support the yen.

A third option for Japan would be to switch slowly to a reflationary course by expanding the domestic economy so that it can import more to increase its exports when the world economy recovers. This policy may not bring about an immediate recovery of the yen, but will help Japan strengthen its economy and currency in the long run.

Observers also believe that the Tokyo offshore dollar centre being advocated by some officials and bankers will also strengthen the position of the yen in the future. While domestic Japanese markets would still be insulated in some respects, the centre would enable Japan to coordinate its domestic and external policies better than at present to provide further liberalisation.

Saburo Matsukawa

Wholesalers wield the power in distribution system

JAPAN'S OLDEST and largest department store, Mitsukoshi, recently admitted that it had pushed some of its suppliers into buying the shop's merchandise and services.

For the past three years Mitsukoshi has denied the charge, made by the country's Fair Trade Commission. Now it must write to about 5,000 suppliers to promise not to do it again.

Reports say that some Mitsukoshi employees encouraged suppliers to buy goods like jewelry, tombstones and package tours as well as contribute to special exhibitions and the remodelling of some of its department stores. It is an indication of just how far ripples can go when a large member of the distribution system in Japan flexes its muscles.

In other cases the manufacturer has the upper hand over the retailer. Last year the major integrated steelmakers which dominate steel production in Japan grew increasingly concerned about the rising imports of cheaper steel goods, especially from Korea, which were affecting domestic prices.

To avoid attracting the attention of the big steelmakers (and perhaps lose supplies from them) importers were reported to be using cloak and dagger tactics to get the steel in — unloading at night, rubbing the makers' marks off the steel and using unmarked trucks to transport it.

In other areas makers of cars, electrical appliances, dairy products, cosmetics and detergents have a captive distribution system, with their products going through their own wholesalers, sales companies, trading companies or just direct to the retailer.

Wholesalers, too, the most complex layer of Japan's distribution sandwich, also wield considerable power, particularly over small retailers.

They have access to retailing and manufacturing information which gives them good market knowledge. They can assume a certain amount of risk in marketing products. In the past they have provided financial assistance to both manufacturers and retailers.

One North American auto parts manufacturer who has been selling windshield wiper blades in Japan for about 10 years comments: "Japan's distribution system is complex anyway. But sometimes what appears to be an ordinary part of the distribution system entails financial dependence between all levels and it makes it difficult for companies who would like to get into the market."

Distribution is perhaps the toughest obstacle race now facing potential exporters to Japan or foreign companies which decide to manufacture there.

Goods in Europe go through fewer intermediate hands than they do in Japan. In the Japanese system, especially in the food sector, a product can go through two or three wholesalers before ending up on the shelves.

These layers can add an average of 50 per cent or more to the cost of an imported product from the time it leaves the foreign factory.

In its latest set of trade liberalisation measures at the end of May, the government agreed to look at ways of smoothing the path where imports are hampered by distribution or business practices.

It also announced that it would register business consultants to advise foreign businessmen who want to do business in Japan. These are all praiseworthy efforts but the system has its roots in both culture and habit.

Discount audio shop in Tokyo. Japan's retail distribution system is complex and costly

There are almost as many wholesalers and retailers in Japan as the United States—even though the population is half that of the U.S.

Many of the companies are either family businesses run by a husband and wife or employ only a few people. Historically, the distribution industry was an alternative for people retiring from the land, says a survey by Dodwell Marketing Consultants on Japan's distribution system published last year.

Shopping habits have also favoured the system. Instead of the American housewife's large weekly shopping expedition, her Japanese counterpart still generally goes shopping daily and on foot.

The wholesaler is an indispensable part of this system because he is able to provide these small shops with the wide variety of goods that consumers want.

However, the supermarket chains, relative newcomers to Japan's retail industry, are working hard to cut out the wholesaler wherever possible.

During the 1960s and 1970s supermarkets mushroomed in Japan, challenging the department stores, the past leaders of the retail industry.

But the bloom is off the boom and supermarkets are watching their sales growth fade. Already highly competitive in pricing and innovation, they are looking at ways of getting an edge by cutting out more middlemen and so reducing costs.

The two largest supermarket chains, Daiei and Ito-Yokado, import goods directly from Taiwan, South Korea, Hong Kong and Europe. Some of the smaller ones have grouped together for more competitive clout.

One such group, Allied Import Company (AIC), tied up with Safeway the leading American supermarket chain last year. They agreed to co-operate in trade and marketing information and Safeway got a chance to market its own brand name products in Japan.

If Japanese companies go to such lengths to circumvent the costly and complex distribution system, what chance do foreigners have? There is little chance of beating it. Success stories are usually of those companies who have joined it—either through appointing a sole agent, setting up a sales company or using the skills of an established Japanese company.

A Government study on the marketing strategy of foreign companies in Japan due to be published shortly stresses the importance for foreign companies of finding a Japanese partner to lead the way through the business labyrinth.

Even so, only a few have really succeeded. One successful marriage has been between Warner Lambert and K. Hattori Company, which markets Seiko watches. The tie-up has helped Schick razor blades to capture a 70 per cent share of the Japanese market.

Few direct foreign imports have captured a sizeable market share. Instead, popular foreign brand names are either manufactured in Japan under licence, by joint venture companies or by wholly-owned subsidiaries. Many foreign businessmen already in Japan believe that a physical presence is necessary to really tackle the market.

There is obviously no one way to enter the market and once there companies have modified or changed their approach to use the system to their best advantage.

Wella Japan, a wholly-owned subsidiary of Wella AG, makes hair-care products. It was established in 1976 when Wella bought out its joint venture partner.

The company uses a combination of its own sales staff and wholesalers to market its products throughout Japan. It needs wholesalers because many beauty salons are small and so delivery volume is also small. The Wella sales staff tends to concentrate on urban areas.

Canada's largest food and meat processors, Canada Packer, has also graduated through various steps to gain a foothold in Japan.

In 1968 Canada Packers spotted a large potential market in Japan and initially appointed a trading house as sole agent. However, by 1980 the volume of trade had grown sufficiently to warrant opening Canada Packers Japan. It is a joint-venture company owned 65 per cent by Canada Packers.

Sales have doubled since the company opened its doors and Canada Packers Japan now handles about 10 per cent of the pork imported by Japan—the world's largest pork importer—through its international network. It also sells frozen and canned vegetables, dried beans, grain and fish.

The company has followed a traditional distribution route rather than trying to carve a new path although it has been approached by two or three large supermarkets seeking direct imports.

"The system isn't ideal but it may be a necessary evil," says Mr Kazuzo Ebihara, president of Canada Packers Japan, who also once worked with the trading company which acted as Canada Packers agent.

He sees change but says it will be slow. There are still many jobs dependent on the wholesale and retail trade.

The process of change may provide sharp-eyed newcomers with opportunities. Dr Dirk Vaubed, chairman of Wella Japan, told a recent roundtable meeting sponsored by the Japan External Trade Organisation that there are stale or declining product lines in every industry where related wholesalers would welcome new proposals.

Julia Elcock

Restrictions on financial services sector ease

UNTIL FAIRLY recently almost all debate about the alleged inequalities of Japan's trade relations with Western countries focused on goods rather than services. Services tended to be neglected in part because Japan ran (and continues to run) a deficit on the invisible account of its overseas balance of payments, and partly because imports and exports of services are less obviously related to employment levels than more tangible forms of trade.

However, the tendency of Japan's overseas critics to neglect its performance in the services sector and to look only at manufacturing industries has been corrected with a vengeance during the past few months.

The new interest of the U.S. Administration in the service sector was dramatised early this year when Mr Mike Mansfield, the U.S. Ambassador to Tokyo, claimed in a speech that while Japanese banks were free to take over domestic American banks, no U.S. bank could do the same in Japan. The claim was denied by the Japanese Government—and is now explicitly contradicted by a clause in Japan's new Banking Law (in force since April) which says that Japanese financial institutions *can* be acquired by foreigners.

Even so, the impression has remained that, for one reason or another, foreign companies are less free to penetrate Japan's financial service industries — chiefly banking, securities and insurance—than Japanese banks are to do business in Western countries.

Answer

To what extent is this true and if it is true how much does it matter? The short answer would seem to be that foreign banks, insurance companies and securities companies are indeed less free to do business in Japan than Japanese companies are in some (but not necessarily all) Western countries. However, this is not the same thing as saying that Japan discriminates against foreign companies in the financial service industries sector.

In theory, if not necessarily always in practice, foreign companies are treated in the same manner as Japanese companies in all three of the industries under consideration —which means that they are subject to the same regime of government supervision as domestic companies.

The foreign bank presence in Japan looks impressive when viewed in terms of the number of banks (71) that now have branches in Tokyo, or in terms of the way the number of foreign banks has grown over the past decade, from fewer than 25 banks in 1970. Foreign banks, however, account for only a little over 3 per cent of total loans and discounts by banks in Japan and for not much more than 4 per cent of bank assets.

The average return on assets of foreign banks in Japan has fallen steeply over the past 10 years and is now low by international standards.

Foreign bankers attribute some of their problems in Japan to a tightly-regulated local money market (which has made it impossible to raise funds in as many different ways as in many Western markets). It is admitted, however, that the markets are freer than in the past and that a fairly definite trend has been established towards de-regulation of the banking industry. What has made life difficult for the foreign banking community, despite this gradual trend for the better, is a decline in overall demand for bank funds by Japanese companies and increasingly stiff competition between foreign banks and domestic Japanese banks.

One answer to the funding problems of foreign banks in Japan would appear to be that they should try to acquire the branch networks of domestic banks (in precisely the same way as Japanese banks have done in California). But the difficulties of doing this have proved quite formidable. Although foreign takeovers of Japanese banks are permitted under Japanese law there appears to be a marked shortage of Japanese banks which are anxious to be taken over despite the fact that the nation boasts a total of roughly 620 banking institutions (including nationwide "city" banks, regional banks and the smaller mutual or "sogo" banks).

The tendency for Japanese banks to resist takeover is not limited to bids from foreigners. Japan's major city banks have been equally unsuccessful in their efforts to acquire smaller banks — so once again it is extremely hard to prove discrimination against the foreigner.

Foreign non-life insurance companies, like foreign banks, hold only a modest share of the Japanese market (2.9 per cent of premiums at the last count) but, unlike banks, appear reasonably satisfied with their profitability. According to the manager of one foreign company, Japan is one of the few markets in the world where the insurance business itself (as opposed to the investment or insurance company assets) remains a basically profitable activity.

The other side of the coin is that nearly all aspects of the industry are strictly regulated. Premium rates in the non-marine section of the industry are fixed by an industry association which works in close coordination with the Ministry of Finance. The introduction of new insurance products requires advance licensing from the Ministry (which may take as much as two to three years to make up its mind in certain cases).

Tight rein

The notion that foreign companies are kept on a tight rein in the Japanese market—despite their theoretical ability to compete on equal terms with the Japanese industry—has to be reconciled with the fact that some companies have accumulated a far larger share of business than others. The top four "management entities" in the non-life market (some of them representing more than one foreign insurance company) account for well over 90 per cent of the total business done by foreigners and at least some of these appear quite satisfied with conditions in Japan.

Unlike foreign non-life insurance companies foreign life insurance companies are relatively recent arrivals in Japan (the first foreign life insurance licence was issued in 1973). But unlike their colleagues in the other half of the industry they appear to enjoy a substantial competitive edge. Japanese are the world's second largest holders of life insurance (after the U.S.) and the industry's leading company, Nippon Mutual Life Insurance Company, recently overtook the Prudential Life Insurance Company, to become the world's largest life company.

The notion that the industry (and the general public) might benefit from a dose of external competition explains why foreign companies began to be licensed to sell life insurance in Japan from the early 1970s onwards on condition that the products they proposed to offer (or the ways in which they planned to sell them) differed from what was already available in the domestic Japanese market.

Today, six foreign companies (or joint ventures between foreign and Japanese partners) have been licensed to sell insurance to Japanese citizens and the foreign share of the market—though small—appears to be growing. Government policy towards the foreigners, though restrictive in the sense that only about one new licence has been issued per year, appears liberal when compared with the total ban on licences for new Japanese life insurance companies.

So far, however, no foreign company has acquired a seat on the Tokyo Stock Exchange, although a formal ban on foreign membership of the exchange was lifted early this year. This situation contrasts with the position of Homura Securities Company as the one and only Japanese securities company to have acquired membership of the New York Stock Exchange.

Apart from seeking entry to the Tokyo Stock Exchange, foreign securities companies have a strong interest in the liberalisation of controls on the types of securities that are allowed to be sold in the Japanese market. The Ministry of Finance is said to have drafted guidelines for trading in CDs and Commercial paper, and can be expected to put them into operation when the yen exchange rate strengthens enough to justify the additional capital outflow that would result from liberalisation.

Other securities instruments that are freely traded in Western markets may take longer to make their debut on the Japanese market. But the barriers, as Finance Ministry officials are never tired of pointing out, apply to the securities industry as a whole, not just to foreign companies.

Charles Smith

HOW FOREIGN BANKS RETURNS FELL

(return on assets—per cent)

1973	1.03
1974	1.19
1975	1.12
1976	0.93
1977	0.70
1978	0.60
1979	0.29
1980	0.57

Source: International Business Information

Softer U.S. line on farm policies

JAPAN'S trade dispute with the U.S. has turned largely into an argument over liberalising the import of food, especially beef and oranges, from the U.S. However, America's early tough demand for total removal of controls, appears to be softening toward a call for a relaxation of barriers. In return, the U.S. will expect Japan to promise serious efforts to clear the way for reform of what must be one of the most illogical domestic agricultural production systems ever devised.

The argument over greater access for American and other outside farm goods in Japan has escalated sharply over the past few years. In recent months, the problem has threatened to spill over into protectionist legislation in the U.S. Congress.

Japan's powerful farm lobbies have joined hands with vows to take to the streets at the first sign of giving in to U.S. demands. This spring, farmers staged the biggest demonstrations in Tokyo seen since 1977 and 1978—when the U.S. won an increase in its quota for beef and orange imports. Thousands of farmers marched past the U.S. Embassy shouting slogans, some in English, such as "No More Beef, No More Juice."

In May, Japanese and U.S. negotiators declared a truce as both sides prepared for the next round of negotiations, scheduled for October, when the specific issue of oranges and beef will be brought up. Even this agreement was marred when the U.S. Special Trade representative sent a letter to several Japanese Cabinet ministers containing what appeared to be fresh demands on farm goods just before the Versailles summit.

At least partly in response to a second pre-summit package of market opening measures, announced by the Japanese in late May, the Americans appear to have decided on a less abrasive approach in the coming round of negotiations. The package itself barely touched on farm issues, offering only stepped-up tariff cuts on 17 items and increases in quotas for such items as herring and prepared pork. But Americans did greet it as a step in the right direction to improving access to the Japanese markets.

Perhaps more importantly, the U.S. has slowly come round to the view that for the foreseeable future the current farm trade issues will not be solved unless major changes are made in Japan's domestic farm system.

The Japanese Government has yet to show much enthusiasm for a serious reform of the complex system of supports and subsidies which sustain farmers. But it may be willing to consider the U.S. arguments in exchange for a compromise on the beef and orange quotas later this year. Any pledge on the part of the Government to liberalise the 22 categories of farm items now protected (arguably in violation of the rules of the General Agreement on Tariffs and Trade) would bring the farmers on to the streets in protest.

"It is quite clear that meaningful access will not be attained if it means sacrificing the Japanese farmer," writes one U.S. agricultural official in a recent report.

Inefficient

Broadly speaking, Japan's problem boils down to inefficiency—by U.S. standards—and waste in nearly every area of farm production. A hodge podge of policies support the system partially through the national budget, but even more heavily through artificially high prices for consumers. Prices in turn are controlled by tightly regulating imports in various ways.

The classic instance of waste and inefficiency is rice, a commodity which gradually has become less important in the Japanese diet. Rice consumption has fallen on a per capita basis since 1962. But a system of subsidies has tended to keep production at a high level, leaving Japan with a rice stockpile (financed by the Government) equivalent to nearly half its annual 10m tonnes of production.

The producer price of rice in Japan is currently $1,193 per metric tonne, or three to four times the world market price. Japanese consumers shoulder most of that cost burden directly at the market.

Food counter in a store. Japanese eating habits are under pressure from abroad

Beef production, which interests the U.S. both as a producer of beef and an exporter of feed grains, is similarly muddled. The average beef farm raises about six head of cattle.

What the Americans would like Japan to do is take new initiatives to rationalise things like rice production and beef farming. American trade would benefit just as much from increased local production of beef, and hence consumption, as from more imports because of the position of the U.S. as a producer of feed grains. One rather far-fetched suggestion is that Japan could do for beef production what it does for steel, that is, devise high technology methods of producing cattle efficiently using imported raw materials.

It is generally felt that the powerful farm lobby, led by Zenchu, the umbrella organisation for farm co-operatives, is throwing up barriers to major improvements in farm efficiency. Zenchu has a vested interest in maintaining the status quo, no matter what the cost. The Ministry of Agriculture, Forestry and Fisheries, appears at best to be indifferent to the idea of major changes.

While the myriad problems facing Japanese agriculture are far too complex for simple solutions, the roots of the dilemma can be traced fairly easily. What went wrong from the 1950s onward was that agricultural inefficiency became part of the immense price paid for industrialisation.

There are no simple ways to preserve a proper balance between industrialisation and agriculture in a mountainous country where only 14 per cent of the land is flat enough for use. Japan's troubles were compounded by the speed with which it achieved its economic "miracle." Within two decades tens of millions of workers had left the farm for jobs in factories and cities, leaving about 10 per cent of the labour force in agriculture compared with 30 per cent in the 1950s.

There was, however, no such shift in political power from the countryside. The ruling Liberal Democratic Party (LDP) still depends on the farm vote to keep its now comfortable parliamentary mojority.

Recognise

The size of the problems being created in agriculture were not recognised clearly until the 1960s, paradoxically just as Japan began enjoying the fruits of industrialisation. The first and most serious problem was that Japan became dependent on imported food to a degree almost unprecedented among other industrial nations in the West.

Its self-sufficiency ratio on farm and fishery products (using the strictest calculation) plummeted from more than 80 per cent in the 1950s to 50 per cent in 1970. What appears to be an all-time low was reached in 1976, when Japan produced only 42 per cent of the food it needed.

Among the other results of this situation, Japan grew enormously dependent on the U.S. for farm imports. Japan buys about $6bn to $7bn of agricultural goods each year, making it America's best farm customer.

This already high dependence on the U.S. is one understandable reason why most Japanese may take a dim view of U.S. pressure to buy even more—including beef and oranges—to help bring overall bilateral trade into better balance.

Richard Hanson

JAPAN XII

There are many ways of doing business in Japan apart from exporting. Some of the foreign companies which manufacture or provide services are profiled here.

Gold Card success

WESTERN-MANUFACTURED products may have lost a good deal of whatever competitive edge they once enjoyed in the Japanese import market but Western services can still sell well in Japan. This conclusion is prompted by the spectacular success during the past two years of the American Express yen-denominated Gold Card—a cash card which Japanese residents can use anywhere in the world but on which they are always billed in yen.

The Gold Card has done about twice as well as Amex expected when it first decided to launch it in the summer of 1979. However, the card could probably never have been launched at all but for a decision by the Japanese Ministry of Finance (in the summer of 1978) to withdraw a long-standing ban on the issue of credit cards valid for use both inside and outside Japan.

Mr Jackson Huddleston, the Amex man who was responsible for launching the Gold Card, thinks that the Ministry of Finance withdrew its ban on the issue of internally and externally available cards as part of the general "loosening up" that followed the issue in early 1978 of a U.S. Congressional report (the "Jones Report") on U.S.-Japan trade problems. Amex became aware of the change of policy in August 1978 when the rival Diners Card (which, in the case of Japan, is 75 per cent owned by Japanese interests) came up with an internationally valid card. It lost no time in reacting to the news.

The company's first move, in autumn 1978, was to launch a major study of the Japanese card market (in which Amex had only previously been involved as an issuer of external use "trip" cards). On the basis of this study the decision was taken in the following summer to make what Mr Huddleston claims was the biggest "wholly-owned foreign investment in any Japanese industry for quite a number of years."

The investment was big because Amex decided to set up an integrated Japanese operation including computer and financial services. The

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target was to issue 35,000 cards in the first two years but the actual number issued was more than 70,000, making the Japanese Gold Card the most successful new venture ever organised by the Amex card division outside the U.S.

The overwhelming response to the Gold Card came despite what Mr Huddleston says were some very serious difficulties in launching it. One of the first problems was to get major Japanese banks to co-operate in the handling of payments.

A second problem was to arrange credit lines with the city banks, and a third was assessing credit risks on card users. Finally, Mr Huddleston says, the company faced extreme difficulty in recruiting the kinds of people it needed to run a highly-sophisticated operation.

The Gold Card operation had a "core staff" of 26 when the project was launched but this had to be expanded to 200 during the first two years of the card's life and the extra people proved exceedingly difficult to find. Amex eventually was able to find the people it needed through direct personal recommendation and by picking up good people who were being "shed" by other foreign companies, such as airlines.

The one problem which Amex did not find, according to Mr Huddleston, was trouble with the Japanese authorities. He says the Ministry of Finance took a positive view of the operation from the start, sometimes even helping to smooth out difficulties which cropped up with business associates in the private sector. To secure the Finance Ministry's help, Amex made a point of keeping the Ministry informed about its plans for the Gold Card and of sending its best people to the periodic meetings with officials.

Mr Huddleston declines to provide figures for the current earnings of the yen-denominated Gold Card. But he does claim that average expenditure by Gold Card holders is "many times" higher than that on competing Japanese cards. Amex's success in Japan obviously owes something to its international prestige as an all-round provider of financial services. Apart from that some special features, such as a Y500,000 "cashing service" and the lack of an upper limit on cardholders' spending, obviously helped to make the Gold Card popular. The final verdict on its success, however, should probably be that there are still some things Westerners do better than Japanese and that running a cash card operation is one of them.

Charles Smith

Building on an old idea

ALTHOUGH WESTERN manufacturers of parts and components have normally found great difficulty in winning customers in the Japanese motor industry, there are a few outstanding exceptions. A case in point is Garrett Corporation, the Los Angeles-based member of the U.S. Signal Companies group, which specialises in heat transfer equipment and turbochargers.

According to Mr Hideo Matsuoka, the 71-year-old retired diesel engine designer who runs the Tokyo subsidiary of Garrett Automotive Products, the company is currently supplying at least 80 per cent of the turbochargers used in Japanese passenger cars. Since "turbo cars" as the Japanese call them now account for between 7 and 10 per cent of Japan's total car output—compared with none three years ago—and since the turbocharger is a high-technology, high value-added product, Garrett's stake in the Japanese market ranks as a major exception to the rule that Japanese motor assemblers normally buy their equipment only from Japanese suppliers.

The irony of Garrett's Japanese sales success—as its own executives point out—is that turbo chargers have been around for a long time, although not necessarily as devices for boosting the performance of car engines. The idea of using engine exhaust to drive a turbine which would then send compressed air back into the combustion chamber of an engine dates back more than 50 years and was first applied in aircraft as a means of coping with the problem of thin air at high altitudes.

Turbochargers came into general use in the construction machinery industry in the early 1960s (where they serve to increase power without any change in the size of the engine to which they are fitted) and on diesel-powered heavy trucks and lorries from the middle of the decade.

The event which caused the Japanese motor industry to start looking at the possibilities of turbocharged passenger cars (and which also gave Garrett its chance in Japan) was the 1973 oil crisis. This had the effect of shifting the balance of advantage between lowering an engine's fuel consumption and raising its initial costs. It also meant that, if turbochargers were to be used profitably by the industry, they would have to be adjusted to the needs of small and medium-sized engines instead of the much larger engines which had been fitted with them in the U.S.

Garrett's expertise on traditional turbocharger technology provided the starting point for the development of Japan's first turbocharged cars. But both the American company and its Japanese associates emphasise that a lot of joint development work had to be done. The work took about three years, from 1974 to 1977, and was carried out partly in the research divisions of the Japanese companies concerned and partly at the Garrett Corporation headquarters in Los Angeles.

In addition to embarking on joint research activities with the Japanese motor industry, and thus in effect making the decision to supply the Japanese market with a completely new product, Garrett decided around the time of the 1973 oil crisis that it needed a presence of its own in the Japanese market. The company accordingly terminated a licensing agreement with a Japanese partner which had been yielding rather disdisappointing results and acquired land on the banks of the Arakawa River in northern Tokyo where it built an assembly and service centre.

AID Garrett Japan KK sold about 400 turbochargers per month during its first year in business, but had achieved a satisfactory five fold increase in turnover to about 2,000 units per month by the time the first Japanese turbocar (an adapted version of the Nissan Cedric) was ready for the market in late 1979. Today the company is making about 20,000 turbochargers a month and there seems no reason why this should not increase further.

C.S.

McDonald's keeps to the recipe

NIHON McDONALD'S KK is a joint venture formed in 1971 between an enterprising Japanese businessman, Mr Den Fujita, and the famous U.S.-based fast-food hamburger restaurant chain. The venture has proved wildly successful in its own right, so much so that the U.S. parent is buying back "technology" developed in Japan.

The technology in question involves an on-line point of sales computer system, developed by Nihon McDonald's, which links all of the company's cash registers to a main computer in Tokyo. What Nihon McDonald's has chosen not to tinker with is the basic technology for making hamburgers, fried potatoes and milk shakes. These seem to do well enough in the original imported form.

If McDonald's has a sales philosophy toward Japan, it is Mr Fujita's strong belief that what sells in the U.S. will eventually sell to the Japanese.

McDonald's is in fact the most visible of the numerous foreign entries to the Japanese fast food services market. This year the company expects finally to overtake in sales a leading chain of franchised sushi shops (which serve bite-sized raw fish on vinegared rice dishes) as the number one food service chain in Japan.

After a decade of sales growth rates averaging 20 per cent a year, McDonald's by the end of this year, will have 350 shops spread throughout the country. Its sales are expected to top Y72bn compared with only Y1.5bn in 1972 when there were only 19 McDonald's serving the country. Two years ago, in recognition of Nihon McDonald's achievement, the cream of McDonald's worldwide empire gathered in a Tokyo hotel, with over 3,000 invited

McDonald's

guests, for a gala celebration of the opening in Japan of the chain's 5,000th outlet worldwide. Only in the U.S. and Canada do people eat more McDonald's hamburgers. Even Nihon McDonald's own Donald the clown—the Japanese changed it from Ronald, because of difficulty in pronouncing the r—was present.

The success of McDonald's may be largely the result of dramatic changes in Japanese social and dietary habits over the past two decades. These have left the average Japanese much more inclined to accept the idea of eating a patty of beef on a roll while standing on a public sidewalk. The first store, in 1971, opened on Tokyo's main Ginza shopping avenue, and provided none of the sit down restaurant facilities found in newer outlets.

More important for success appears to have been the flexibility which McDonald's of the U.S. displayed in their approach to the Japanese market. McDonald's executives rejected several possible partners, including large trading houses which have brought other foreign chains into the country, in favour of Mr Den Fujita's medium-sized trading house, Fujita Shoten.

As is often the case in joint ventures between partners in countries as different culturally as Japan and the U.S., flexibility on the foreign partner's side appears to have paid off.

Rather than insisting on a licensing agreement, the arrangement preferred in most countries where McDonald's sells hamburgers, the two partners agreed to form a separate joint venture company, dividing the equity equally. McDonald's provided the know-how — mostly in the form of manuals — Mr Fujita provided an all Japanese staff and management, and a flare for salesmanship and promotion.

A McDonald's hamburger costs more than its U.S. cousin, but it is otherwise identical, right down to the pickle and beef patty — a good deal of which also comes from Australia. If anything, Nihon McDonald's has been more loyal to the original McDonald's menu than its U.S. parent. The only items it has added on its own are iced coffee, a sweet and corn soup. Nihon McDonald's belief in doing things the U.S. way extends so far as to operate under licence from the U.S. parent, a restaurant in San Jose, California, where it sends promising employees for practical and cultural training.

Richard Hanson

Early arrival pays off

IN 1944 a Swedish businessman had a simple but original idea which, in two decades, revolutionised the distribution and storage of milk and other liquid foods. It was that a roll of paper sealed at right angles at either end to make what mathematicians call a "tetrahedron," represented one of the most convenient and cost-effective ways of storing liquids.

The tetrahedron package, which was first conceived by Mr Ruben Rausing in 1944 provided the starting point for a family-owned concern named Tetra Pak which, from its beginnings in the early 1950s has been the only company in the world that does nothing but design and manufacture systems and materials for liquid food packaging. Tetra Pak produced its first milk packaging system on the tetrahedron format in 1951 and installed its first packing line in a Swedish dairy in 1952. Three years later, the first Tetra Pak salesman arrived in Tokyo to sell packing systems to the struggling Japanese dairy industry.

The company sold its first packaging "line" in 1957 and, in 1962 (after a number of joint venture partners had refused to enter what appeared to be unpromising line of business) Tetra Pak set up its own wholly-owned subsidiary in Japan. The new company earned revenue of Y3m (about £3,000) in its first year and took six years to turn in a profit. Tetra Pak's early arrival in Japan and its determination to stay there seem to have been an important factor in its subsequent success.

Tetra Pak had three packaging lines working (under lease contracts) at Japanese dairies in 1963, but had raised the figure to 38 by 1968 and to 73 by the early 1970s—as the Japanese drank more and more milk and the dairy industry underwent rationalisation. From the mid-1970s onwards its business grew by

TETRA PAK

leaps and bounds to the point where in 1982 642 leased packaging systems were working in the dairy industry (and for manufacturers of liquid food products other than milk) while two factories (near Mount Fuji and outside Kobe in south western Japan) were producing the packaging materials that are "fed" into machines to form finished packages.

The total of Tetra Pak's Japanese business during 1982 should generate about Y40bn worth of sales—enough to make the Japanese subsidiary a fair-sized company in its own right and for Japan to rank among the three largest of the 81 markets in which the parent company has established overseas subsidiaries or set up filling lines. Mr Bengt Delaryd, the Swede who now heads Tetra Pak's Japanese subsidiary says that the Japanese market is a costly one to operate in—possibly the most costly of all. But he clearly considers the effort worthwhile. One result of living up to Japanese quality standards has been that Tetra Pak KK has generated know-how in various aspects of the packaging business that can be transferred to other countries in which the company is active.

Although a highly successful venture by any standards, Tetra Pak KK is very far from dominating the Japanese liquid food packaging industry. A major Japanese paper manufacturer, operating under licence from a U.S. company, claims the largest single share of the market for "table top" packages that have become the most popular milk container in today's Japan.

Mr Delaryd admits that Jujo Paper (the Japanese company concerned) is probably ahead in "gabled top" packages but claims an overall lead for Tetra Pak in the liquid food packaging business, in part on the strength of its position as the only company to provide an "integrated" packing service as opposed to supplying, either packing machines or packaging materials.

Tetra Pak KK has more than this to offer. Its Japanese design studio and a new training and research establishment can do everything from advise a food manufacturer on the designs to put on its packages to provide the basis for pilot marketing of new products.

C.S.

Irish exports soar

IRISH EXPORTS to Japan in 1981 were twice those of 1980 and 10 times up on the 1970 level. In 1982 they should increase by at least another 50 per cent, judging by the performance of the first three months. The reasons for this highly satisfactory performance are to be found at least partly in the efforts of the Irish Export Board, a "semi-state" corporation as the Irish call it, whose approach to export promotion is almost totally different to that of most other industrial countries.

According to Michael Anderson, the 31-year-old head of the Tokyo office of CCT (as the board is known—these being the initials of its Irish name) Ireland almost never sponsors trade exhibitions in Tokyo and has made no effort to contact Japanese department stores or major trading companies. Instead CCT relies on small Japanese wholesalers with specialised requirements and on its extremely detailed knowledge of the 1,000 or so Irish companies that are seriously involved in exporting.

Michael Anderson, who worked as a Maxwell House brand manager before he joined CCT at the age of 25, says that his office virtually acts as the Tokyo branch of many of the companies it represents—not only locating market opportunities but also receiving orders when they are placed.

The Dublin head office of CCT, working through product divisions corresponding to the main types of consumer and capital goods, goes even further than that. It is quite prepared to commission outside designers to produce designs to meet a demand that has been identified by its Tokyo office and second them to selected manufacturing companies. The one thing CCT does not do is finance exports, which is one reason why it tends to be very cautious in deciding which Irish companies it should encourage to embark on the time-consuming and costly process of penetrating the Japanese market.

Irish exports to Japan, according to Anderson, break down into five main categories, starting with farm products and continuing with pharmaceuticals (where most output comes from local subsidiaries of U.S. multi-nationals), specialised machinery, textiles and "miscellaneous" goods. It is in the last two of these sectors, and especially in textiles, that the CCT approach seems to have worked particularly well. Sales of traditional Irish Arran knitwear have jumped from £70,000 in 1979 to a probable £1m-worth this year as a result of the realisation by CCT officials that Japanese consumers wanted to buy the "real" thing (not merely convincing copies turned out by other Far East countries) and were prepared to pay for it.

After fixing on Arran sweaters as a growth sector in the Japanese market CCT took over the job of recommending materials. One result of its efforts was that much of the knitwear Ireland sells in Japan today is made of silk, alpaca and other specialised fibres. An Irish sweater made of alpaca wool can fetch as much as Y250,000 (nearly £600) in a Japanese department store today compared to the £20 the exporters were quoting for their sweaters when the CCT first became involved.

Fabrics have been another area of remarkable Irish success in the Japanese market—dating from the time when a famous Paris-based Japanese designer, Takada Kenzo, started specifying them in his clothes (which meant that Japanese companies making Takada's clothes under licence in Japan had to do likewise).

Other specialities include carpets and, rather surprisingly, prismatic mirrors, where Donnelly Mirrors (the Irish subsidiary of a U.S. principal) claims between 30 and 40 per cent of the market.

Considering the results it has been getting over the past two years, the Irish CCT must rank as one of the most cost-effective organisations of its kind in Tokyo. The Tokyo office employs three people (its director and two Japanese assistants) — a seemingly minute number to keep track of the complex and fast-changing Japanese market. Michael Anderson stresses, however, that "knowing Japan" is not the only, or even most important, qualification, for trade officials on Tokyo postings. Still more important, for anyone who wants to make the best of the thousands of potential opportunities awaiting exporters to Japan, is to know the industries in one's own country.

Charles Smith

Kodak only imports

KODAK equipment has been sold in Japan for more than 80 years. Indeed, the U.S. group claims to have introduced mass market photographic products, but only in 1977 was Kodak Japan established.

Any desire Kodak might have had to set up manufacturing facilities in Japan before then was vain—the Japanese Government refused to allow direct foreign capital investment in the industry. By 1977 the Japanese industry was fully established from manufacturing down to the retail level.

So all Kodak products sold in Japan are imported and, with minor variations, are the same as those sold throughout the rest of the world. Kodak Japan executives say there are no plans to establish plants in Japan.

Kodak Japan is in fact a marketing company with staff of a dozen, all of who are now Japanese. Its main aim is to co-ordinate Kodak sales through two distributors.

As far as the Eastman Kodak group as a whole is concerned, Kodak Japan is a unit in the Asia-Africa-Australia division, which itself is part of the marketing arm on the photographic (as opposed to chemical) side of the group's business.

Within the Japanese company, reflecting the Eastman Kodak marketing pattern worldwide, there are six different product groups. First and most visible are the consumer market products—cameras and films. Then there are the professional and finishing markets, taking in processing laboratories, and the motion picture and audio visual markets.

At the same time Kodak has sections dealing with graphics, health science—this includes X-ray materials—and business systems which embraces copier products.

In Japan, Kodak's distributor for the business systems end of the market is Kusuda Business Machines, while Nagase, with which Kodak has had a relationship since 1923, handles the rest.

Kodak will not disclose the size of its Japanese business.

Kodak

The figures are run together in the annual report with other operations in Asia, Africa and Australia. But Nagase said that its sales of Kodak products are worth Y65bn a year. Of that half the sales come from the consumer and professional finishing markets with film and photographic papers the biggest sellers.

In the film market, Kodak is dominated by Fuji which holds about 70 per cent. The remainder is shared by Kodak and Konishiroku, with Kodak's share independently estimated at about 20 per cent.

The three groups indeed are the veterans of the Japanese photographic industry. Konishiroku dates back to around the turn of the century while Fuji was founded in the 1930s. Now it is Kodak's main competitor worldwide.

There are four basic categories of film in the market—35mm, 126, 110 and now Disc, introduced in May. Kodak is active in all of them. But it does not sell cameras using 35mm film. This part of the camera market is dominated by Japanese and German companies. However, the more 35mm cameras they sell the better for Kodak's film sales, the company says.

The 126 film is used in the first generation of cartridge cameras and this was followed in 1972 by the new pocket cameras using 110 film. Here the competition is fierce as Kodak vies with Canon, Fuji, Minolta, Pentax and Sakura.

In the instant photography market, Kodak has a new competitor. Polaroid invented the technique and Kodak entered the market in 1976. Three years later Fuji approached Kodak and asked for patent and cross-licensing agreements to make the camera which both takes a phtograph and produces a print.

Last year Fuji brought out its first system using film compatible with that of Kodak, so that both are set apart from Polaroid, which remains the market leader with, according to Daiwa Securities, 30 per cent of Japanese sales. But in the modest share remaining it looks as if Kodak is coming under pressure. Earlier this year Fuji boosted production, encouraged by early sales of its system.

Paul Cheeseright

Japan has many export industries other than cars and electronic equipment. Some of the groups are described here and over the page.

Stoves head export list

JAPAN'S ABILITY to capture a large slice of almost any market in the world with high quality and very advanced electronic consumer goods has at times inspired awe in the West. It therefore may come as a shock to some to learn that last year the hottest export growth item for half a dozen of Japan's biggest home electronic appliance makers was kerosene stoves whose most sophisticated electronics involve a D-cell battery. Japan, indeed, has discovered it holds a virtual monopoly on the world market.

While other high-flying exports, such as home video tape recorders and stereos began to lose steam, sales of kerosene stoves (known as Sekiyu Sutobu in Japanese) have soared. According to industry-wide figures, exports of relatively cheap and easy to make heating stoves to the U.S. (by far the biggest market outside Japan itself), have tripled each year since 1979. In 1981, sales totalled more than 3m units. This year, barring a warm winter, sales to Americans are expected to exceed 4m.

Before 1979, when Americans first discovered how cheap and efficient a one-room stove can be, Japan sold fewer than 300,000 a year. Now for the first time, demand in the U.S. is likely to equal or exceed that in the home market.

While a number of small specialised stove makers in Japan are enjoying the sudden boom in sales, the biggest winners have been the giants of Japanese industry. Sanyo Electric claims to have about 20 per cent of the export market, which last year was almost as big as the home market.

Reputation

Total sales of gas and kerosene stoves were worth Y50bn last year. Sanyo makes its stoves in the "off season" at a plant which in other seasons makes such items as canned beer vending machines.

Sharp Corporation whose reputation is based solidly in video equipment and electronic calculators and computers, ranks second after Sanyo in stove exports. Its stove sales tripled last year, while VTR sales doubled. Though small in comparison with total sales, stoves have been hot items for everyone from Matsushita Electric Industrial (the giant of home electronics) to Toshiba Corporation.

The advantages of a small, easy-to-handle heating stove (which costs about $200) are obvious to anyone who has lived in a Japanese-style house which lacks any central heating. Before about 1960, when kerosene stoves first began to sell in Japan most Japanese relied on small sunken "Kotatsu," where feet and hands were kept warm by burning charcoal.

Prosperity brought with it the luxury of being able to afford to keep one whole room in the house warm on chilly winter nights. Americans, after the second oil shock in the 1970s, re-discovered with enthusiasm the idea of using kerosene to ease the cost of heating a whole house.

Here the story reveals an ironic twist. Until Japanese companies began producing their own stoves in the early 1960s, nearly all the oil burners in Japan were imported. By the time of the second oil crisis, there were virtually no U.S., or for that matter European, companies making stoves to fill a sudden surge in demand.

Japan, where such models as the UK's Aladdin Bluelight stove sparked a domestic boom, turns out to be the only country in the world mass producing stoves. Even the Aladdin brand survives only through licensed production in Japan for sale in the U.S. market.

Kerosene stoves are not likely to spark any trade wars, despite Japan's absolute dominance. This is at least partly due to decisions by most producers to export their stoves on an OEM basis for sale under U.S. brand names. There are in any case no competitors to complain about losing market share, as was the case when Japan burst on the scene in the west with motorcycles, televisions and cars. The experience with stoves, in fact, has much in common with home video tape recorders. In both cases, the Japanese borrowed the original idea from the West, only to find themselves virtually alone with a product when a marketing opportunity arose.

Richard Hanson

Taking cosmetics to the U.S.

SHISEIDO is Japan's largest, and the world's third largest, cosmetics maker but its overseas presence so far is not very much more than a gleam in the eye of Mr Yoshiharu Fukuhara, the company's general manager for international operations.

Just because it has a long way to go in, for example, the American market, however, Shiseido expects to go there fast. Overseas sales accounted for only 5 per cent of overall turnover in 1981 but were nearly 30 per cent up on the previous year's level. The 1982 figure should be up another 30 per cent or so and is expected to represent 6.8 per cent of turnover.

When Shiseido first decided to sell overseas about 25 years ago one of its major motives was to improve its image at home. Today, with a 30 per cent share of Japan's domestic market and with the market itself near saturation, the company has other reasons for wanting to build an international presence. The chief one is that growth outside Japan is likely to come easier than growth within the Japanese market.

A secondary consideration is the need to expand overseas earnings so as to earn a return on the massive investments Shiseido has made over the past seven years in the study of foreign markets and in the development of new products specifically suited to overseas tastes.

For the first 15 years or so after it started selling overseas, Shiseido simply "changed the labels" on products that had originally been developed for the Japanese market and offered them to customers in the U.S. or South East Asia. From 1973 onwards the company realised that to gain a major position overseas it would have to change this strategy fundamentally.

Shiseido accordingly began to develop a series of products specifically for overseas markets that were introduced to Japan only after they had been sold abroad (or sometimes not at all). The products concerned were often manufactured outside Japan and invariably made use of foreign designers.

A typical example is the Nombre Noir perfume now being produced in France by Shiseido and the French pharmaceutical manufacturer Pierre Fabre which entered a 50-50 joint venture with Shiseido in 1980. Nombre Noir will be launched on the French market in September this year and will be released shortly after that in Japan and other markets.

Although Shiseido's overseas strategy is based at least in part on designing new products to match overseas tastes, Mr Fukuhara says the company does not want to go too far in this direction. He claims that a certain major U.S. domestic maker which went all out to mould itself to the needs of foreign markets ended by losing its individuality altogether.

Shiseido aims to become internationally acceptable while remaining distinctively Japanese, which Fukuhara says is a slower approach to growth but a surer one in the long run.

Another pre-occupation of Fukuhara's is to secure the right balance between different types of products in overseas markets. Shiseido perfumes developed specifically for the U.S. or for Europe have been "well liked," he says, but perfumes tend to have shorter market life than more basic items such as skin care products and it is in this area that Shiseido wants to found its overseas business in the long run.

So far as the pace of its overseas advance is concerned Shiseido believes in consolidating a few markets thoroughly rather than trying to overrun too much "territory" to begin with. In Europe the focus at present is on France and West Germany — not on the UK despite the fact that several leading department stores in Britain have expressed interest, Mr Fukuhara says.

In the U.S., Shiseido learned early on the dangers of rushing into the market. From 1976 the company cut back severely on the number of retail outlets that were stocking its products and abandoned what is now seen to have been an unduly "gimmicky" promotion policy.

One market on which Mr Fukuhara clearly has his eye, but about which he is not willing to say very much, is mainland China. The dry climate of Northern China, he says, means that skin care products are a basic necessity and Shiseido apparently would be only too happy to supply them.

Charles Smith

Selling eggs on a huge scale

JAPANESE farmers are not famous for their international competitive strength or for any strong interest in seeking economies of scale through stepping up the size of their operations. That being so it seems remarkable that the largest egg-producing company in the world should be Japanese.

The company concerned is Ise KK, a 70-year-old family-owned enterprise. When the present head of the company, Mr N. H. Ise, took over in the early 1950s, it employed 30 people and boasted sales of Y20m. Today Ise is chalking up sales of over Y60bn (£137m) per year and is about 20 times as large as the next biggest Japanese egg producer.

Not only that, the company is in the process of building what will almost certainly become the largest egg-producing operation in the U.S.

Ise's basic idea was that eggs could be produced 40 per cent more cheaply in the U.S. than in Japan because the feed grains needed to rear laying birds were available on the spot instead of having to

be imported. He also saw that the U.S. egg industry was stuck with an outdated and unprofitable system of producing eggs in the south of the country and selling them in the east, which could easily be improved upon by new entrants to the industry.

Ise made his first major move into the U.S. market at the end of 1981 with the acquisition for a total of $18m of four medium-sized production facilities on the Eastern seaboard, near to the main areas of consumption.

Six months after the first acquisition had been completed, Ise America (another Ise subsidiary which had originally been established as a holding company for Seaboard Foods) made a second major move into the U.S. market, acquiring the egg production divisions of a major supermarket and an animal feed producer. The company is now embarking on a further programme of direct investment in new production facilities in three east coast states (New Jersey, New York and Maryland).

At the end of phase two of its U.S. expansion programme Ise's American egg-laying farms contained a total of 8m adult chickens — 2m fewer than the largest American producers but twice as many as the current population of Ise's Japanese farms. The combined total of 12m laying birds makes Ise the largest egg producer in the world but Mr Ise is apparently not willing to stop there. What he now plans to do is to develop the U.S. as an export base for egg shipments to the Middle East (especially Iran, Saudi Arabia and Kuwait) and, at a later stage, to Japan.

C.S.

Share of Europe's glass market

ALTHOUGH NO Japanese company has sold significant quantities of glass to Europe since the 1939-45 World War the largest company in the industry, Asahi Glass, now boasts a 10 per cent European market share. It achieved this through the acquisition last year of what, in effect, was the entire glass industry of Belgium and the Netherlands, from a French concern which had decided to divest itself of its glass industry holdings.

The companies involved in the sale, which cost Asahi a total of about BFrs 2bn ($38.7m), were Glaverbel SA of Brussels and Machinale Glasfabriek De Mass NV of Netherlands. They have been 80 per cent controlled by Asahi as from June of last year and will pass wholly under the Japanese company's ownership in 1983. Yet Asahi says that it has no plans to interfere with the existing management of either company, or even to make them adopt Japanese technology faster than they feel inclined.

Asahi's purchase of Glaverbel is seen by Asahi men in Tokyo as the end of a sentimental journey which began in 1907 when the then youthful Japanese company acquired Belgian technology for the manufacture of hand-blown glass. Because of this early technical association, glassmaking words from the Walloon dialect passed into use at Asahi's factories.

But the Belgians did not only export technology. According to Asahi's managing director for international operations, Mr Kinhisa Mushakoji, Belgian glassmakers had a big market of their own in Japan as late as the 1930s.

The arrangement ceased with the war — as did Asahi's technical association with the Belgian industry. But the Japanese continued to regard Belgian glassmaking with respect after Asahi emerged as world leader in the 1970s.

According to Mr Mushakoji, the Japanese company made its acquisition for two basic reasons. The first is that, in a world where direct trade in glass between developed nations is rapidly on the decline, the purchase of the two companies seemed to represent the only chance Asahi was ever likely to get to acquire a stake in the European glass industry. The second reason centres on the possibility of "synergy" between the glass-making technologies of Asahi and Glaverbel.

Asahi expects to purchase finished glass, at least in modest quantities, from the Belgian company and does not plan to return the compliment by shipping Japanese glass to Belgium. It would like to see a gradual improvement in Belgian productivity levels over the years and believes it may have something to teach both the Belgians and the Dutch about the application of computerisation to glassmaking. However, Asahi claims that it has absolutely no intention of reducing the Belgian or Dutch labour forces by lay-offs — despite the fact that lay-offs have been very much in the news in other parts of the European glass industry in recent months.

Asahi's moderation with regard to productivity and manning levels at Glaverbel looks remarkable when viewed against the background of employment figures for itself and its newly-acquired subsidiaries. With a labour force of between 2,000 and 2,500, Asahi is the biggest of Japan's three glass manufacturers and appears to be about twice the size of Glaverbel in terms of annual sales. However, the Belgian company's labour force totals 3,500 while its Dutch affiliate employs between 600 and 700 workers.

Next to productivity—and perhaps of even greater importance as a measure of relative efficiency—is the question of breakeven levels. Asahi systematically has set itself to achieve a profitable breakeven level of 70 per cent and is currently operating at substantially less than that, whereas Glaverbel is currently working at 90 per cent of capacity and needs at least that to realise even a modest return.

Despite its low-profile approach to the relationship with its newly acquired European affiliates, Asahi has one major investment in mind. This would involve the installation of float glass-making at the Dutch company (which at present lacks its own basic glassmaking facilities).

The new float glass plant would cost an estimated Y20bn and would increase basic glass manufacturing capacity of the two European affiliates of Asahi by 50 per cent.

C.S.

Soya sauce 'instrument of diplomacy'

SOYA SAUCE is an instrument of cultural diplomacy. At least that is what executives believe at Kikkoman, the leading Japanese producer, and they have international sales of Y43bn a year to prove it.

"Soya sauce is one of the basic items in Japan's food culture. We feel that selling in overseas markets means the propagation of Japan's food culture," says Mr Yuzaburo Mogi, senior vice-president at Kikkoman and a member of the family which has been in the soya business for more than 300 years.

With a grandiloquence not normally associated with food flavouring manufacture, Mr Katsumi Mogi, the group president, wrote: "By pursuing a combination of technological innovation, product diversification and internationalisation, we are in a position to pledge continued and ever greater contributions to human life and the well-being of our world society in the years ahead."

But internationalisation and diversification were natural steps for a group already dominant in its own market. At present its soya sauce sales account for 32 per cent of the Japanese market.

Before the 1939-45 war, it was natural for Kikkoman to keep Japanese expatriates in the U.S. supplied, but the children of the first-generation expatriates consumed less. This was counteracted after the war by the number of Americans who developed a taste for soya sauce following stays in Japan.

This set Kikkoman off on the course which led in 1973 to the opening of a plant in Wisconsin. Initial capacity of 10,000 kilolitres a year has been expanded to 20,000, involving an investment of up to $30m.

Sales on the U.S. market nearly match the full capacity of the plant. Indeed they have grown consistently at 10-15 per cent a year, although growth latterly has been at the lower end of the range.

Marketing in the U.S. is handled in two ways. The soya sauce goes through a wholesaler to the oriental food stores. It goes through a food broker—a commission merchant—to the supermarket chains. Kikkoman, as a single product company in the U.S., finds this cheaper and more effective than handling sales itself.

In the U.S., 40 per cent of Kikkoman's sales are in supermarkets. The proportion is higher in Australia at 60 per cent, but there are no figures for Europe, where the group has a wholesaler in each country. But Europe is difficult.

European nations have by force of habit tended to seek their soya sauce imports from former colonies—the Netherlands from Indonesia, for example—so Kikkoman is only now beginning to gain a foothold in this market. The centrepiece of its European operation is a chain of five restaurants in West Germany, working on the maxim that the best form of publicity is demonstration.

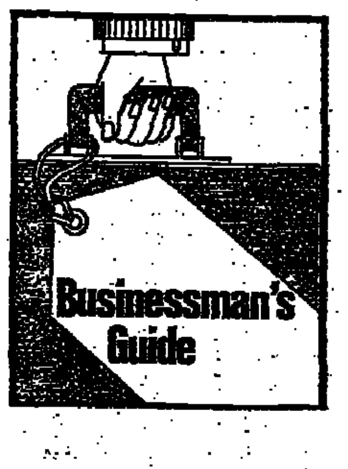
Still, international sales contributed 25 per cent of the group's consolidated 1981 sales of Y172bn. At home, 60 per cent of sales come from soya sauce and of the rest a half is taken up by the sale of Del Monte tomato-based products from the U.S.

That is the clue to the group's domestic strategy. It had a choice: either to seek to extend its share of the local soya sauce market, as the vehicle for expansion, or to diversify. It chose the latter.

So in its range it now includes a variety of imported items such as Lea and Perrins Worcester sauce from the UK and Ocean Spray cranberry sauces from the U.S.

Paul Cheeseright

Hints for the overseas visitor on ways to establish and maintain good relations with Japanese business colleagues



GOOD PERSONAL relations based on mutual trust and esteem play a particularly important role in doing business in Japan. Hospitality given and received can play a useful part in maintaining and establishing such relations. In Japan it is enough for the visitor to offer dinner in his hotel; he is not expected to reciprocate lavish entertaining on the Japanese scale.

The Japanese do not expect foreigners to understand the finer points of their own etiquette but they like people who try to conform. Shoes are removed before entering Japanese-style houses and restaurants.

Most Japanese meals consist of a series of small dishes. Naturally, the polite thing to do is to eat what one is offered but Japanese hosts are understanding is a foreigner explains that he finds a particular dish unappetising.

The suffix *San* to the family name equates to *Mr*, *Mrs* or *Miss*, and should invariably be used when addressing a Japanese, eg a *Mr T. Suzuki* would be addressed as *Suzuki-san*. It is never used about oneself.

In Japan it is the almost invariable custom to exchange visiting cards when one makes a new acquaintance. This is useful to the foreign visitor and it is advisable to take a substantial number of cards (say at least 100) for use in Japan. Cards printed with a Japanese translation on one side are of particular value. The London offices of British Airways offer this service to business visitors but at least four weeks' notice is required. In case of need, cards can be printed fairly quickly and cheaply by a local printer. Many Japanese businessmen are enthusiastic golfers and are ready to arrange a game (and the loan of clubs) for foreign business contacts. Green fees are high, however.

The custom of giving gifts to business and personal acquaintances is more common than in most other countries. Mostly these are fairly small items and it is not necessary to reciprocate immediately although it is customary to give something back in due course for personal presents received from individuals. It may be useful to take a number of souvenir items such as English china, company pens or ties to give away on suitable occasions. Very high quality Scotch whisky also makes an acceptable gift. All gifts should be carefully wrapped in gift wrapping paper.

The Japanese are always pleased when a foreigner makes an attempt, however modest, to understand and use their language. A wide range of useful conversation handbooks is available. But it is a very difficult language, with an extremely complicated script, and some years of full-time study are needed to master it.

Although most educated Japanese can read some English, the number of Japanese who speak good English is limited. Business visitors should assume that their contacts cannot work in English and should, therefore, be ready to use an interpreter until they have clearly established that this is not necessary.

The four main islands of Japan experience a wide variety of climatic conditions ranging from intense cold in the north during the winter to a sub-tropical climate in the south. On the main island summer temperatures rise to about 35°C (95°F) and in the winter fall to about −1°C (30°F).

The seasons are well defined and almost coincide with those of Britain. Early autumn can be wet and subject to typhoons but there are also good sunny spells. The winter is mainly very dry with long spells of bright sunny weather in most of Honshu (including Tokyo) and Kyushu.

There are usually light snow falls in the areas in January and February whereas northern Honshu and Hokkaido experience very heavy snows.

From mid-October to April clothing as worn in Britain for the appropriate season is suitable for both men and women, although visitors should bear in mind that Western-style hotels and modern offices are heated to American temperatures. Lighter wear is needed in the spring and early autumn; in summer tropical-weight clothing is required. The laundering and dry-cleaning services are efficient, fast and reasonably priced; hotels can offer a same-day service.

Details for this Businessman's Guide were supplied by the British Overseas Trade Board.

TRAVEL

AIR The three principal domestic airlines, Japan Airlines, All Nippon Airways and Toa Domestic Airlines between them provide an extensive service covering the main cities and provincial towns of Japan.

RAIL There are frequent and very fast services on the New Tokaido Line (Shinkansen) between Tokyo and Osaka via Nagoya and Kyoto. There are two services: Hikari and Kodama. Hikari does the journey from Tokyo to Osaka in 3 hours and 10 minutes, stopping en route at Nagoya and Kyoto only. Kodama takes four hours for the journey to Osaka, making 11 stops. All trains are air conditioned with restaurant and buffet service.

Telephone calls to Tokyo, Yokohama, Nagoya, Kyoto and Osaka can be made and received en route. Seats should be booked in advance, and at peak seasons it is advisable to do so. The New Tokaido Line was extended in 1975 to Hakata, in Kyushu. Other railways with frequent services and many expresses cover the rest of the country.

Efficient underground railway services operate in Tokyo, Yokohama, Osaka, Nagoya, Sapporo and can be used without much difficulty. Station names are in Roman lettering as well as Japanese.

ROADS Extensive road-building programmes, including motorways, are under way and an excellent motorway connects Tokyo, Osaka and Kobe. Generally, however, roads outside the main cities are very crowded and long-distance travel by road is not recommended.

TAXIS Although they can occasionally be hired by telephone, it is usually much quicker to seek one at the hotel entrance or to wave one down in the street. Taxis in the large cities are usually plentiful, although on rainy days and late night taxis can be very difficult to find. The minimum taxi fare is Y380 with increases for late night hire (no tipping). Addresses of buildings in Japan follow a complex area numbering system. Very few streets in Tokyo have names and, even when they have, the street name is not part of the address. Finding an address in Tokyo and other Japanese cities is not therefore an easy matter. A further difficulty is that the Japanese cannot easily read addresses written in romanised letters.

A business visitor should try to get someone to write the address he seeks in Japanese; if he can obtain a map showing the location of the firm he wishes to visit, so much the better. Few taxi drivers understand much English and few seem to know Tokyo well. Visitors are therefore advised to have the name and address (including the name of a landmark or building nearby and if possible the telephone number) of their destination written in Japanese to show to the driver. Hotels can help in providing this.

If the driver cannot locate the office he may be willing to telephone the Japanese firm for instructions on how to get there.

CAR HIRE Taxis are sufficient for most occasions but self-drive and chauffeur-driven cars can be hired. Unless the British visitor has a very good knowledge of the local geography, and a reasonable command of the language, he would be ill-advised to use a self-drive hire car; a visitor who intends to hire a self-drive car should have possession of an International Driving Licence.

The cost of hiring a chauffeur-driven car is approximately Y3,000 (£6.70) for every hour or part of an hour. There are about seven major car-hire firms with branches throughout Japan. The cost of hiring a self-drive car depends on the size and type of car but is between Y11,000 (£25) per day (unlimited mileage) for a compact car (eg, Toyota Corolla) and Y14,500 (£32) per day (unlimited mileage) for a medium-sized saloon (such as a Toyota Mark II or Cresta).

HOTELS

THERE ARE hotels catering for foreign visitors in all main cities. In Tokyo it may be desirable to stay at one of the more expensive hotels but the cheaper ones are reasonably comfortable. The cost of staying at a prestige hotel in Tokyo, which includes an ordinary single room with bath, meals, tax and service charge, is likely to be about Y15,000 (£33.50) per day. Drinks, transport and entertainment are other items to be considered. Hotel charges are subject to a 10 per cent service charge and 10 per cent tax.

Hotel accommodation can be booked through the Japan Travel Bureau, No. 1, 1-chome, Marunouchi, Chiyoda-ku, Tokyo, and at branches in other principal cities, telex number J24418 a/b Japan J.

Comprehensive details of accommodation, including addresses, telephone numbers, charges and facilities, are in the Japan Hotel Guide, available from the Japan National Tourist Organisation, 167 Regent Street, London W1R 7ED, telephone: 01-734 9638.

In addition to the Western-style hotels, there are traditional Japanese-style inns (*Ryokan*) in Tokyo. The average daily charge for a room and two meals (breakfast and supper) is rarely less than Y10,000 (£22.20). Good Japanese inns can be much more expensive than Western-type hotels, but a night or two in an inn can be an interesting and pleasant experience. Further information can be obtained from the Japanese National Tourist Organisation.

Some hotels have facilities for small exhibitions or displays which business visitors may wish to hold. Reservations should be made in advance.

RESTAURANTS

THERE ARE many high-class restaurants in the large cities and innumerable smaller ones serving American and European-style meals. Drinks cost about Y500 (just over £1) for a bottle of beer and Y700 (£1.50) for a small Scotch, others being pro rata. Entertaining in Japan is in general very expensive, and particularly so for a good quality Japanese-style meal.

Business visitors wishing to entertain colleagues to lunch in a good restaurant or hotel may have to spend at least Y5,000 (£11) a head without wines. (European wines are very expensive: locally produced wine is much cheaper and quite drinkable.) The cost increases considerably if a private room is used, although most parties are held in private rooms.

The cost of a cocktail party for some 50 people in a private room would be from Y400,000 (close to £1,000) upwards. Dinner in a private room would cost about Y12,000-£15,000 (£27-£33.50) per head at a leading hotel.

TIPPING

TIPPING IS not the custom in Japan.

Hotel and restaurant staff: Waiters do not expect tipping as service charges and/or taxes are added to the bill. Porters in hotels patronised by foreigners will accept tips but do not expect them.

Taxi drivers: A tip is not given.

Barbers/hairdressers: A tip is expected by barbers in hotels but not elsewhere.

Railway and airport porters: Y100 (about 40p) per piece of luggage according to size. If in doubt porters will usually say how much they expect.

Narita airport: Y200 near the terminal building. Y300 to the parking areas.

Stations: Y250 per piece of luggage according to size. If in doubt porters will usually say how much they expect.

BUSINESS CONTACTS

Commercial Department

British Embassy, 1, Ichibancho, Chiyoda-ku, Tokyo 102. Telephone (03) 265-5511. Telex J22755 a/b Prodrome.

British Consulate-General, Hongkong Bank Building, 45, Awajimachi, 4-chome, Higashi-ku, Osaka 541. Telephone (06) 231-3355/7. Telex 5225167 a/b Briosa.

The British Chamber of Commerce in Japan, PO Box 2145, World Import Mart Branch, Toshima-ku, Tokyo 107. Telephone 031-987 1620.

The British Chamber of Commerce in Japan, The Kansai Committee: c/o Price Waterhouse Company, Osaka Center Building, 68-3, Kita Kyutaro-machi, 4-chome, Higashi-ku, Osaka, P.O. Box 526, Osaka Higashi. Telephone (06) 252-6791.

THE British Export Marketing Centre is designed both for official export promotions aimed at selected sectors of the Japanese economy and to help individual British firms or groups of companies or their agents to make a serious effort to improve their export performance in Japan.

British Export Marketing Centre, 7th Floor, World Import Mart Building, 1-3, Higashi Ikebukuro, 3-chome, Toshima-ku, Tokyo 170. Telephone (03) 988-2021. Telex J28666 a/b Uktrade. Cable address Uktradebeme.

BUSINESS HOURS

Banks—
9 am to 3 pm Monday to Friday.
9 am to noon Saturday.
Commercial offices:
9 am to 5 pm Monday to Friday.
(While many offices still open on Saturday mornings, the major companies' offices close.)
Department stores:
10 am to 6pm.
(There is no fixed day for the weekly holiday; department stores usually close on Wednesday or Thursday.)
Government departments:
10 am to 5 pm Monday to Friday (Saturday to noon).
British Embassy, Tokyo:
9 am to 12.30 pm and 2 pm to 5.30 pm Monday to Friday
British Consulate-General, Osaka:
9.30 am to 12.30 pm and 1 pm to 5 pm Monday to Friday.

TIME CHANGE

Local time is nine hours ahead GMT.

TRANSLATION/SECRETARIAL SERVICES

HOTELS in the large cities can arrange facilities without much difficulty. The larger Japanese trading companies usually have some competent English-speaking staff. The British Export Marketing Centre (address on page 3) maintains a pool of free-lance interpreters who can be booked on a day-to-day basis at a competitive rate. The current price is Y15 000 per day within Tokyo and Y18 000 per day outside the city. A booklet entitled Secretarial, Interpreting, Translation and Other Marketing Services available to British Exporters to Japan is available from the British Overseas Trade Board and gives details of companies in Japan and the UK offering these services.

Industrial standards perplex foreign companies

FOR THE last seven years, *Cornes, the British trading* house in Tokyo, has been handling kitchen appliances from Bauknecht, part of the expensive system kitchens for the top end of the market. But the appliances are brought in without electric cords and plugs and the fittings are made in Japan. The Japanese electrical system uses 100 volts and two-pin plugs, not 240 volts and three-pin plugs as much of the rest of the industrialised world.

● Kodak modifies its slide projectors to meet electrical safety standards in Japan, although the machines are accepted for use elsewhere in the world. The necessity to obtain special government safety certificates means that, with up *to a year's delay for* the first approval, competitors can buy the machine in the U.S., copy it if they wish and have it on the market before Kodak can sell the original.

● The Japanese authorities maintain a list of the ingredients which can be used in foodstuffs. If the product contains something not on that list, the product cannot be imported. Trade diplomats are not aware of any ingredients which have been added to the list on the request of a foreign supplier.

● *There is a similar list for* cosmetics, but it is not published, and those new to the market cannot check what are acceptable ingredients for a cosmetic and those which are not.

● Last December the Japanese authorities published a notice setting out specifications, manufacturing and storage standards for soft drinks. The standards committee of the American Chamber of Commerce noted that February 15 1982 was the last date for comments on the proposals whose date of *adoption was "to be determined."* The date of adoption turned out to be February 16.

These cases of foreign difficulties with Japanese industrial standards and procedures indicate why, as one trade diplomat put it, "in the Western view there needs to be more harmonisation between Japan and the rest of the industrialised world. In general Japanese standards are idiosyncratic."

But the idiosyncracies do not necessarily mean discrimination, although one importer observed that "in some cases the Japanese do make a virtue of their peculiarity." Still, the standards apply to all. Sumitomo, the Japanese trading *house, is said to have tried for* seven years to win approval for the sale in Japan of an insecticide which it sells nearly everywhere else.

The basic problem is not the standards themselves but their individuality. The EEC, in its complaint about Japanese trading policy before the General Agreement on Tariffs and Trade in Geneva, *claims:* "Japan has tended to develop its own specifications and procedures requiring special types of construction and/or further elaborate testing of goods.

"Some types of goods produced in accordance with the highest world standards are not permitted to be sold in Japan unless tests already performed *satisfactorily in Europe are* repeated in Japan. Responsibility for the administration of the Japanese acceptance procedure if often diffuse and inconsistent, so that it is difficult *for foreign companies to know* in advance exactly which criteria are to be met."

In essence, that is the case against Japan voiced throughout the West and the set of reasons why standards and their place in the panoply of non-tariff barriers are held to obstruct access to the Japanese market.

The lack of harmony between Japan and world standards has been felt acutely by the pharmaceutical industry and there is the feeling, expressed informally, that Japan is using *its standards procedures at* least partially to protect the domestic industry until it is powerful enough to make bigger inroads into the international market.

Industry executives complain about the length of time taken up by testing procedures, citing the necessity for drug stability tests of up to three years (with which they do not disagree) which have to be restarted simply because there might be a change in the packaging or the size of the tablet.

At different stages in the *testing procedures, the drugs* pass through a screening committee and an experts committee, whose decisions are binding. But the applicant company has no means of explaining why this or that step was taken. In contrast to Federal Drug Administration practice in the U.S., there are no hearings.

The experts committee is *generally* composed of specialists from the medical profession and outside the bureaucracy. And this points *to a wider problem about the* facilities for testing operated by the Japanese Government. They appear, according to foreign specialists in the area, to be inadequate.

Mr Robert Connelly, the American co-chairman of the generic programme committee at the U.S.-Japan Trade Study Group, notes that independent testing associations often seem not to have their own equipment but know who does—and that is often within the domestic industry.

Aerosol cans, he observes, have to be tested, but the samples go to Toyo Aerosol Kogyo, a division of Toyo Can. It is a contract packager, so that any product which comes in is a competitor. There could be a conflict of interest, he says.

This whole gamut of problems is recognised by the Japanese authorities and last January, in response both to foreign pressure and urging from within Japan by bodies like the Keidanren, the employers federation, the Government announced a lengthy series of measures to ease import testing procedures.

In all, 90 items were mentioned and of these 67 were the subject of measures for improvement. These specific *measures were accompanied by* the establishment of a Trade Ombudsman, in reality not a single person, but a variety of offices spread through different ministries, with the function of investigating and *alleviating* specific complaints.

The reaction among Japan's trading partners was welcoming but cautious. Generally, it was recognised that the measures might do good but there was some doubt as to whether of themselves they would be enough to improve market access markedly and hence redress the trade surpluses Japan enjoys with the U.S. and EEC. *At any rate, the Japanese* Government's action was seen as a step in the right direction.

But the specific reactions depended on the industry. There was approval in the pharmaceutical industry for relaxations but a note of cynicism in the motor industry.

Leyland Japan, the BL joint venture importing and sales *company with Mitsui,* noted that eight of the 10 measures relating to the motor industry were already in operation and hence were scarcely very fresh. The special demands of the Japanese system remained intact.

Activated

These demands include individual Japanese standards *for heat damage, the evaporation* loss of the fuel system, a windscreen washer test carried out with Japanese dust and a speed warning device activated at 100km an hour.

The main point about the December package though was probably that it signified Japan's willingness to conciliate its trading partners in the interests not only of its own export prospects, but also to promote harmony in the world trading system.

As a later official statement put it: "Japan's basic posture must be to swiftly improve procedures wherever possible in answer to requests by other countries, including the developing nations. In so doing, Japan should take into account the current state of the international economy as well as her own status in it, taking the broad view that by opening her market she will contribute to maintaining and strengthening the free trade system."

For foreign companies, however, the crucial point will be how the Japanese authorities follow through on the formal measures. Much will depend on the instructions given to the bureaucrats—in the past accused of observing the rules with pedantry—by their political masters. But Mr Connelly is impressed by the fact that at last foreign representatives have started to be invited to sit on the *committees drawing* up industrial standards. The outside voice is being heard.

Yet, perhaps not surprisingly, there is a different voice and it comes from companies who have already invested their time and effort in establishing a place in the Japanese market. "Having gone into the trial of getting over the barriers," said one chemical company executive, "I'm not interested in seeing every Tom, Dick and Harry coming in at a cheaper cost."

Paul Cheeseright

Production in Japan may be key to success

TO MANUFACTURE in Japan may be the key to success there, whether it is through joint venture, wholly-owned subsidiaries or contracting work out. Foreign businessmen stress that getting in and staying in the Japanese market takes commitment, and part of that commitment is having a physical presence in Japan and, best of all, a manufacturing presence.

By April 1980 foreign companies held 25 per cent or more of the equity of 2,300 companies in Japan, according to the Ministry of International Trade and Industry (Miti).

Americans have made the greatest share of total investment as well as the major part of manufacturing investment. In Miti's survey of foreign-affiliated companies more than half of the 1,315 it questioned were American affiliates. German-affiliated companies accounted for the next largest group with 7.6 per cent. *Altogether, European-affiliated* companies totalled 32.5 per cent of the companies surveyed.

Why have companies chosen to manufacture in Japan rather than export their goods there? For American companies, barriers at home rather than barriers in Japan have encouraged them to go there, says Mr Keith Knowles, *planning director of Mobil* Sekiyu. He is a member of the U.S.-Japan trade study group now looking at American manufacturing investment in Japan *to find out why companies come* and how they have succeeded. The report will be published in mid-July.

"They simply couldn't get enough attention from the manufacturing base at home to the needs of the Japanese customer," Mr Knowles says. Companies reared on America's huge domestic market found *meeting Japanese specifications* too bothersome.

Other companies saw manufacturing in Japan as a way of countering present or future competition from Japanese rivals. The results have been encouraging. Companies which set up here have generally succeeded, Mr Knowles says.

Strategy

The American Chamber of Commerce took a close look at American manufacturing investment in a study published in *1979 and came to several* interesting conclusions.

It said that not only is manufacturing investment in Japan an essential part of business strategy but it is also profitable. Return on investment from Japan was higher than that of U.S.-affiliated companies in other countries.

The report noted that making *products in Japan does not* threaten manufacturers at home or damage their export prospects. In fact, manufacturing in Japan appears to have spin-off *benefits for American exporters* by bringing in foreign-made components and giving companies a chance to sell other products in Japan.

The European experience appears to mirror that of its American counterparts. A study sponsored by the European community on European investment in Japan is due to be *published in August.*

Just how companies have invested has varied. Some set up manufacturing facilities immediately, others developed a market before investing in manufacturing.

Mobil Sekiyu, a wholly-owned subsidiary of Mobil Oil, has been in Japan since 1893 and has become part of the Japan*ese petroleum industry.* It imports crude oil which it sells to two joint venture manufacture companies and then buys back the products.

Levi Strauss, the jeans maker, decided to import about 25 per cent of the goods it sells in Japan from the U.S., 40 per cent from factories in other countries and produce the balance in Japan by contracting the work out. Most other clothing makers avoid the headaches of producing in Japan by licensing its name to a Japanese maker. However, Levi Strauss wanted to retain control of its most important asset—its brand name.

"That isn't to say that the Japanese company which has the licence doesn't do a good job," says Mr John Frechette, general manager of Levi Strauss FE Japan. "Sometimes they have better success in building *a brand in Japan than makers* have in their own country."

The door to the Japanese market has opened little by little. Foreign companies have been in Japan for many years but not in any real force until the post-war years and particularly after Japan's entry to the OECD in 1964 which marked the beginning of a *liberalisation process which still* continues.

Until 1973, the number of shares a foreigner could buy in a Japanese company was limited. Until 1980 foreign investment was "prohibited in principle" rather than "permitted in principle."

Japan has never offered incentives to foreign investors, nor *has it taken investment* missions abroad to attract foreign capital.

Recently, the ACC took the initiative in looking at different *places in Japan to study the* possibility of locating plants there. They looked at the available labour force, water resources, land prices and environmental problems. Yokohama rated top of the list and the Tohoku region bottom.

There has been no regular trend in the yearly increase of foreign-affiliated companies. Numbers peaked around fiscal 1973 and then dropped substantially between 1974 and 1977, reflecting the depressed Japanese business climate fol*lowing the first oil shock.* In fiscal 1978 newly-established foreign affiliates totalled 179 and the next year the figure fell to 148.

What is evident in the survey is the widening gap between the number of these companies in commercial and manufacturing sectors. By 1980 fewer foreign-affiliated companies were in *manufacturing*—42.8 per cent—than in commerce—44.1 per cent. (In the manufacturing sector chemical and machinery manufacture attracted the biggest numbers).

While part of the reason may be the recent opening of Japan's financial markets to outsiders, the country's sluggish domestic economy as well as surplus capacity in basic industries world-wide, high interest rates and volatile foreign exchange rates are blamed for damping the enthusiasm of foreign manufacturers who might invest.

The future picture does not seem bright. Mobil's Keith Knowles says there is not much opportunity for new foreign manufacturing companies to come to Japan. "A lot of the opportunities relate to companies which are already here but not as fully as they should be," he says.

"*Any high-technology industry should be here.* This is where the competition is going to be and they should be here close to these companies *to watch what they are doing.*"

Julia Elcock

INDICES OF PRODUCTION
(1975=100)

	Electric machinery	Chemical products	Oil-coal products	Textiles
1970	87.2	86.8	79.8	105.2
1976	128.3	111.5	102.7	108.4
1977	136.5	117.2	104.7	106.7
1978	155.2	131.3	104.0	107.7
1979	177.2	143.1	106.5	108.5
1978	213.0	144.7	101.2	107.1
1981	246.0	144.9	95.4	105.3

Source: MITI

Max Wilkinson, Economics Correspondent, interviews the Chancellor of the Exchequer, Sir Geoffrey Howe

Inflation is still the enemy

THREE YEARS ago, Sir Geoffrey Howe was warning that the outlook for the British economy was "almost frighteningly bad."

Now, after the steepest nosedive since the 1930s the economy has levelled out and inflation has been cut from over 20 per cent to single figures. But the Chancellor's strategy still faces perhaps its severest test: can it deliver the low interest rates which he believes will be the means of lifting the economy clear of recession and will growth be fast enough to convince the electorate that unemployment will at last stop rising?

The unemployment figures above all will be used to judge the results of what many people have dubbed an "experiment in monetarism."

But for Sir Geoffrey himself the word monetarism strikes a jarring chord. "I don't believe in 'isms'," he says and adds: "'Isms' are fashions." He describes economics as "such an uncertain science" and prefers to see his ideas as an essentially commonsense reaction to past failures. Far from being an "experiment," he believes British monetary policy has now received the good housekeeping seal of approval from most of the world's industrial powers.

"If you talk to people of other countries, many of them will say: 'Gosh, you needed to do what you are doing. We have great admiration not only for the fact that you decided to do it, but that you have decided to do it with such widespread acceptance from the political system,'" he says.

"I think there has been an increasing tendency to recognise the need to curb the runaway pattern of inflation and public sector deficits — one has seen country after country in difficulties which in the end have to be checked by very, very severe means. This has been the pattern whether it has been in Turkey, Ghana, Poland, Italy or Belgium or anywhere else.

"The interesting thing has been the diminution of the belief that there exists a kind of more cheerful alternative if we attach less importance to the battle against inflation."

At his desk, looking sideways onto the garden behind Number 11 Downing Street, Sir Geoffrey, aged 55, speaks with the practised rapidity of a successful former barrister. A pink rose in his buttonhole gives him even a jaunty air as he dismisses the Keynesian demand management of the post-war years as a "busted flush" and praises Jim Callaghan for spelling out the need for financial discipline when he was Prime Minister.

In the months between his March Budget and the ending of the Falklands crisis, things seemed to be going quietly Sir Geoffrey's way: inflation was coming down sharply from 12 per cent in January to 9½ per cent in May. The Budget itself was generally well received and wiped out much of the unpopularity caused by his increase in the tax burden a year earlier. The political threat from Conservative wets had been engulfed in a wave of patriotism. The pound was steady; and many pundits were predicting that despite the problems of the U.S. budget deficit, interest rates would start to ease.

More recently, however, strong U.S. interest rates and a rising dollar have cast a deeper shadow over the world's economy. In the UK, unemployment at 3m including school leavers has continued to worsen, and as yet there are few signs of any substantial pick-up in economic activity. Indeed output in the first three months of the year fell by 0.4 per cent compared with the last quarter of 1981, and is now some 5 per cent lower than when the Government took office.

How then does the Chancellor himself see the balance sheet after three years of office and with only one more Budget before the next election? What are the criteria by which he thinks the strategy should be judged?

He starts from the Government's campaign to change people's fundamental attitudes to the economy, to work and to pay bargaining.

"I think we have established the need for a sharp transformation in our economic performance which would depend on people as well as on government," he says. He also cites four ways in which the policies have "begun to extend the areas of economic vitality fundamental to economic growth."

"We have done that by substantial deregulation, by significant changes in the tax system, by significant but not yet sufficient changes in the dominance and inertia of the public sector, and I think we have demonstrated our determination to achieve a sharp and sustainable reduction in inflation."

Ashley Ashwood

Sir Geoffrey: "One gets some marks for consistency"

The debit side, which has provoked the fiercest criticism of the Government, he deals with rather blandly. After discussing the changes in attitudes and better realism, he says: "It has not yet led to a turnround in the tide of unemployment and it is leading inevitably only to a slow rate of growth in a world where others are scarcely growing at all."

Sir Geoffrey's more detailed ideas about how the forces of competition could be strengthened and the problems of unemployment were a central part of his review of Conservative policies which he made at the party's political centre summer school in Cambridge this weekend.

Sir Geoffrey is one of those politicians who prefers the steady drip of reason to any attempt at storming public opinion with rhetoric. He never shuns a qualifying clause and he likes to invent aphorisms for the key points in his strategy.

His latest is an oft-repeated defence against the charge that his monetary squeeze has made unemployment far worse than was necessary. "A rise in unemployment is not the bill we pay for reducing inflation now. It is the bill we pay for having allowed it to continue so long in the past," he says.

Sir Geoffrey's own summary of his strategy conceals a number of bold and quite radical decisions which he has taken as Chancellor. One of these was the substantial shift from income-tax to Value Added Tax in his 1979 Budget. This move was later condemned even by some of his supporters because it added four points to the annual rate of inflation just as the economy was entering a deep recession with sharply rising prices.

However he shows the opposite of repentence: "The reaction to my 1979 Budget was powerful, positive and correct. The key component was a dramatic reduction in direct taxes and above all, what I call the Albanian rates of tax on higher levels. I think the changes enabled us to rejoin the human race in terms of incentives. Within a few weeks I remember the aircrew of a British Airways plane saying: 'Thank God you have done that; it really does signal a change in performance.' Then driving down to my constituency I was stopped by a group of chaps on the roadside who said 'Good on you. Well done.'

"In film terms, they felt the U.S. cavalry had arrived. In the 1980 and 1981 Budgets we really had to keep our heads down and get stuck into some very difficult and tough decisions, and we wouldn't have expected people to be dancing in the streets after the 1981 budget."

He also showed considerable resolution by deciding to go for a much more restrictive Budget in 1981 than most people including some Conservative ministers had expected. There was alarm among the wets that this would choke off economic recovery, and it provoked a celebrated letter to the Times from 364 university economists deploring his policies.

Was he at all shocked to find so many distinguished people ganging up against him?

"I was shocked that any economist had that much time to collect signatures to a letter of such breath-taking superficiality. It stressed in a sense that our departure from the conventioned wisdom of old fashioned Keynesianism hadn't been recognised as such. It didn't make me really examine the basis of our thinking, because that was not founded on the simple purchase of an economic doctrine. . . . It had evolved over a long period of trying to balance all the arguments."

However, he says he is sympathetic to those industrialists who have urged that a framework of monetary discipline should be combined with some increase in demand to give "a sign of hope and a sign of awareness of the problems that industry is facing."

But he says: "I am still reluctant to let anyone believe that the key to economic salvation comes from a little more enlargement of the amount of demand. It would be so insignificant. If one were to enlarge demand by 1 per cent, the impact on any individual corporation would be so limited."

So which are the attacks on his policies which *have* hit home? Sir Geoffrey does not hesitate: "The ones that have caused most anxiety are those that have been concerned, as we have been concerned, with the overshoot of monetary targets accompanied by the criticism of undue monetary severity."

Although, as Sir Geoffrey observes, these criticisms cancel out in one sense, they also point up the failure of the Government's hopes that it could quite easily limit the money supply and that this would rapidly reduce people's expectations about inflation.

It would be easier and better, Sir Geoffrey says, if it were possible in the UK to operate in terms of a single monetary target as the Germans do, "but that seems to be a very difficult thing to achieve in an economy that is emerging from a high inflation and from a number of institutional changes."

But isn't all this a lot more diffuse than the old idea of a direct link between monetary targets and inflation?

Sir Geoffrey says: "It may be that one was naive to think that under the old concept if one enunciated a growth rate for the money supply every wage bargainer would rush round and look at it and determine his pay by reference to it."

As for the future: it is clear that Sir Geoffrey does not see the fight against inflation as something that can quickly end in an armistice.

And this will clearly require continuous persuasiveness. Sir Geoffrey says he has been preaching the "essentially non partisan" message about inflation since long before he came to office.

He said: "People do sometimes say to me, well you have been saying it rather a long time and it looks as though you were right after all. So one gets some marks for consistency."

Lombard

Industrial mood deteriorates

By Samuel Brittan

NOW THAT the veil of the Falklands has been lifted, a clearer view can be obtained of some changes in the British economy since the March Budget. In a sentence, the prospects for inflation have improved while those for output and employment have deteriorated.

Let us, in true British fashion, get the good news out of the way first. The Budget "Red Book" foresaw a fall to 9 per cent in inflation by the end of 1982.

The Bank of England Bulletin, which is far from being an automatic cheerleader for the Government, now suggests that this target may be reached sooner and that a rate of "7 or 8 per cent or perhaps lower" could be reached "in the course of the coming year" — an ambiguous expression which may refer either to the whole of 1983 or to the next 12 months starting from now.

But on the immediate outlook at least the Bank is likely to be right as most of the forces determining the 1982 inflation rate are already in the pipeline.

Circumstantial

The evidence for lower output growth is more circumstantial, but just as strong. Industry has passed through three phases so far this year. In the early months the mood was more pessimistic, as output hesitated once more, partly under the influence of severe weather, after the modest recovery of late 1981.

Then in the early spring there was a more optimistic phase which coincided with the Budget when Treasury forecasts were revised upwards to show a real GDP growth of 1½ per cent in 1982 — both year on year and end-year on end-year.

Now there is a third phase of renewed pessimism. The clearest evidence is the trend of the CBI survey for expected output in the next four months. For nearly a year up to April there had been a small positive balance of respondents expecting an increase.

But in May the balance changed to minus 2 and in June to minus 4. Preliminary evidence suggests a further deterioration in July.

These balances are too small to suggest anything very dramatic. But the trend is the wrong way and there is some qualitative evidence of a bearish kind. Some companies are reported to be wondering if they have built up their stocks excessively; and a fresh wave of destocking and manpower reduction may be occurring — not on the scale of 1980-81, but enough to turn modest recovery into a renewed unemployment crisis.

Forecast

The Treasury is now believed to have reduced its 1982 growth forecasts from 1½ per cent to the 1 per cent earlier envisaged by the CBI, while the CBI itself is likely to go down further, perhaps to half a per cent.

It is not, of course, the exact numbers which matter, but the fact of the likely range has shifted downwards.

The Americans used to have an expression "growth recession" for a growth rate which was positive but too low to prevent unemployment and slack from increasing.

This is what the UK now has. Even before the latest unfavourable indicators, unemployment was rising by nearly 20,000 a month; and in June it rose by nearly 40,000.

Policy

It will not be easy to devise an appropriate policy. The industrial relations lobby among *employers* is already moaning that it will be difficult to negotiate a third winter of pay restraints and it fears that settlements are more likely to rise above than fall below the present 7 per cent average.

Any demand stimulus which encouraged these sentiments and gave negotiators the impression that a higher level of settlements could be financed would do more harm than good. For any stimulus to nominal demand would be more than eroded by higher wages and prices; and real demand could actually fall.

The policy problems will be further explored in this week's economic viewpoint.

Letters to the Editor

Danger of putting a generation at risk

From the Chairman of United Biscuits.

Sir,—I agree with the comments in your leader on June 24 that while "there is no short-term panacea" for high unemployment, "the case for short-term palliatives should not be ignored."

While unemployment is essentially a long-term problem (it has been on a rising trend in Britain for over twenty years) we have an abnormal bulge in the short-term, because of the recent massive shake-out of people from industry. The introduction of micro-processing technology is likely further to reduce the number of jobs in manufacturing industry, and there is bound to be a time lag before the greater wealth which must result from improved productivity filters through to create new jobs in the service sector.

We therefore need an interim measure to tide us over the hump, and I would like to suggest that thought should be given to having a once-and-for-all, "special offer," voluntary, early-retirement package for up to one million people within sight of retirement and below a defined pay level.

All sectors of society could contribute: the Government by reducing the pensionable age for those who volunteered to retire, companies (shareholders) by making the necessary injection of funds into their pension schemes, and unions by relinquishing the "rate for the job," which is a disincentive to the employment of the young and inexperienced.

All this would of course be costly but less expensive than a generation of young people who are unable to find work for years, and the bitterness and anti-social attitudes which that would engender. The nation cannot afford to risk having a generation of young people losing the will to work or being "used" by extremist "crusaders" whether of the far left or the far right.

It would be a terrible indictment of our generation if a cry of "remember the 80s" were to poison industrial relations in future decades as the memory of the 30s has damaged relationships to this day.

(Sir) Hector Laing.
Syon Lane, Isleworth, Middlesex

Britain's greatest ally

From Mr E. H. Thomas

Sir,—Mr D. Cobbold (June 26) describes the Channel as "that tiresome strip of water." No doubt Napoleon and Hitler would have agreed with him wholeheartedly. The Channel is, and always will be, our greatest ally, and it is unfortunate that it is not possible to widen the Channel.

However, the tiresome discussions of tunnels and bridges have dragged on for over a century, with certain notable gaps, and hopefully will continue to fill your correspondence columns indefinitely.

E. H. Thomas.
20, Brancaster Lane, Purley, Surrey

Women and employment

From Miss Elizabeth Crosbie

Sir,—May I respond to Ian Hargreaves' statements on the "highly rational and balanced response" to "female emancipation" by suggesting that the Financial Times incorporates such a stance within its pink pages. The headline "Women and immigrants — a blurred picture" juxtapositioned by "Men and Matters" was unnecessarily tactless.

The consequences of accepting women's equality can not be parcelled neatly into "Social Affairs" or similar categories, the margin includes the media and language itself together with such modern afflictions as the divorce boom. Would that the FT acknowledged its female readers not by creating a woman's page ghetto, rather by encouraging women to be interested in business structures and success in the fields you cover.

We should remember that the over-supply of labour has occurred simultaneously with an under-fulfilled quota of imagination, nerve and professionalism in both boardrooms and government. May I then suggest that the FT notices that the wrong people have been making decisions for too long.

Elizabeth Crosbie.
36 Longmeadow, Torriano Avenue, NW5

A victory for common sense

From Mr G. A. Davies

Sir, — Your headline "Victory for British Rail" (June 29) does little to stimulate good industrial relations, rather the opposite, perpetuating the "them and us" attitudes which bedevil UK industry.

Given the chaos imposed on the public in recent days, there is little justification for praise of either side. The only victory has been for the common sense of the average working man faced with the failure of leadership by both management and unions.

G. A. Davies.
Greenhills, West Mount Avenue, Amersham, Buckinghamshire.

Back to the gold standard

From Mr Patrick Collins

Sir,—In his letter of 30th June Mr Mackay refers to the recent article by Anthony Harris concerning the inadequacy of the present monetary system, and advocates a return to the gold standard. Despite its weaknesses the system of guaranteeing convertibility of currency into gold performed an essential function for which no other arrangement has so far been able to substitute in a democracy: it provided an impartial mechanism which the general public accepted as justification for the monetary discipline necessary to prevent accelerating inflation.

For a number of reasons the resumption of currency convertibility based on gold would not be desirable today, and indeed no *single* commodity could provide an adequately stable basis for such a system. The only means of resuming currency convertibility today is by linking the value of money to a range of durable, basic, essential commodities — a principle that has been supported for more than a century by some of the most eminent economists of the day. However, the specification of such a system is complicated by the need for commodity prices to respond to market forces, and it would be neither economically sound nor desirable to attempt to fix primary commodity prices as the price of gold was fixed under the gold standard.

This problem was definitely solved in the 1940s by the Australian economist, Leo St Clare Grondona, who devised a system for the implementation of a conditional primary commodity standard, which remains the only practical means of returning to currency convertibility. In the more than 30 years since it was formulated this system has been praised by numerous economists, businessmen and parliamentarians, and in most of the serious press (including the Financial Times). During that time no-one, in either the economics profession, business, government or the civil service, has produced any reason for doubting that the functioning of the system would, without risk, and at negligible cost to the country, have extensive economic benefits, including stabilising the real value of sterling, the balance of payments, the terms of trade, the level of economic activity and the exchange rate, and acting in a number of ways to reduce inflation.

Unfortunately, during the post-war period of ascendancy of discretionary economic and monetary policies, governments and their advisers have apparently had little interest in a system that would lay the foundation for a non-inflationary monetary policy, improve the operation of free markets, and reduce the need for active government intervention in the economy.

If the present government genuinely wish to re-establish "sound, honest and honourable money" as the Prime Minister claims, there is no alternative policy initiative which would contribute more to achieving this objective than the re-establishment of currency convertibility according to the Grondona system.

Patrick Collins.
Department of Management Science, Imperial College, Exhibition Road, SW7.

Computers for General Practice

From Mr William McMillan

Sir,—An unexplained move by the Government, to give two computer firms a huge subsidy on their sales of micro-computers for general practitioners' surgeries, seems likely to drive all the other firms pioneering this field out of business.

Not only does this action conflict with the Government's declared aim of encouraging innovation and competition—in its own Information Technology Year — but there are other disturbing aspects.

At least one of the non-favoured firms has recently received a substantial "small firms" aid grant from the same government department that now threatens its extinction!

The ink will still be wet on the taxpayers' cheque as it enters the receiver's incinerator.

W. McMillan.
Berrow Court, Westfield Road, Edgbaston, Birmingham.

UK COMPANY NEWS

Atlantis Resources valued at £9m

BY CARLA RAPOPORT

Atlantis Resources International, a Calgary-based oil and gas company, publishes its prospectus today in preparation for a full stock exchange listing.

The company's listing follows a placing last week of 3m of Atlantis' shares at 45p each, or 15 per cent of the company's equity. The placing raised £1.35m and capitalises the company at £9m.

Atlantis was formed three years ago by Mr Lawrence Payne, 40, a Canadian with some 18 years experience in the oil business. The company is primarily engaged in identifying oil and gas prospects through its own geological research and raising joint venture capital in order to develop those prospects. Since April, 1979, the company has raised C$31m in Canada and the UK and has participated in exploration projects in western Canada and Illinois and Louisiana in the U.S.

Atlantis Resources, as operator for the joint ventures, controls the drilling operations of the projects and as a result, earns a working interest of up to 25 per cent of the joint venture's stake in each project. As of December 31, 1981, the proved reserves of the oil and gas interests which Atlantis earned in this manner had a net cash flow worth C$17m over the next 15 to 20 years, discounted at a 15 per cent rate. Probable reserves amounted to C$5.9m discounted at 15 per cent.

Visiting London last week, Mr Payne, now president of Atlantis, agreed that the timing of the listing was somewhat unfortunate as the state of the oil sector is now quite weak. But he said that the company had been working on a public listing for 18 months and was reluctant to delay the move further. Atlantis had previously purchased a controlling interest in Le Vallonet, a publicly-quoted, dormant Jersey-based company, with the intention of "reversing" into it for its quotation. That scheme was abandoned in favour of a direct placing and full listing. Following next week's market debut, Atlantis will offer its own shares in direct exchange for the outstanding 961,200 ordinary shares of Le Vallonet it does not already own.

Mr Payne pointed out that Atlantis has a strong balance sheet and is not raising money in order to reduce debt. He also said that two-thirds of the funds for Atlantis' joint-ventures to date had been raised in the UK.

"We're known in London. We are not selling 100 per cent of our equity for exploration. We are a fully operational oil company, not a drilling fund. Atlantis owns no rigs, so really we can benefit from the present conditions by getting cheaper contracts for our projects," said Mr Payne.

The placing, which has been carried out by de Zoete & Bevan, UK stockbrokers, has raised £1.35m for Atlantis, or about C$3m. Mr Payne will receive C$1m of the funds in exchange for his private oil and gas properties. He will retain 51 per cent of the company's shares and together with his directors' interests, will have effective control of 65 per cent of the equity. The rest of the money will go into Atlantis as working capital.

For the year ended last December, Atlantis recorded a loss of C$222,044 on revenue of $686,918. Oil and gas revenue for the year totalled $44,104. The company projects cash flow from oil and gas to reach $1.68m by 1983 and $2.2m in 1984. Net assets of the company is given as $25.9m, the bulk of which is the discounted worth of proved and probable reserves owned by the company.

Revenues generated from operations will be used to finance the edevelopment and expansion of the business. The directors, therefore, do not anticipate that any dividends will be paid by Atlantis in the foreseeable future.

Stockbrokers to the company are de Zoete and Bevan. Dealings in the shares are expected to begin this Thursday.

● comment

Atlantis is a small company seeking a small amount of money and its appetite has presumably been sated by de Zoete's private clients and in-house funds. This is just as well as London has been glutted over the last 18 months by oil men from Canada who promise jam tomorrow for pounds today. A lot of those companies are trading at steep discounts to net assets and even top-quality companies in Canada and the U.S. are down to as much as a 70 per cent discount. None the less, Atlantis is only opening up a small market in its shares, so its 21 per cent discount may just hold. With only a handful of employees, no rigs on its hands and no troublesome borrowings, Atlantis does seem adequately equipped to last out the current slump. The figures in its prospectus, however, were compiled last December and much has changed since then. For instance, projected oil prices have declined steeply and discount rates for net cash flow have increased to as much as 30 per cent. (Atlantis uses a 15 per cent discount rate.) The company argues that certain regulatory changes since December have balanced the score by improving the picture for future oil and gas sales in Canada. This, like a lot of things in the oil business these days, must be taken very much on faith.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interim:—SGB.

Finals:—Associated Leisure, Birmingham Mint, LRC International, London Pavilion, May and Hassell, Parkdale, Ropner, Alexander Russell, Sekers International, Textured Jersey, Whewey Watson.

FUTURE DATES

Cardiff Property	July 13
Fleming Mercantile Invest Tst	Aug 10
General Consldtd. Invest Tst	July 14
Granada	July 6
Imperial Group	July 8
Ladies Pride	July 22
M and G Duel Trust	July 14
Midland Bank	July 30
Finals:—	
Badeys of Yorkshire	July 13
Booth (John) (Bolton)	July 8
Peerless	July 12
Rothmans International	July 20
Thorn EMI	July 15
Watson (R. Kelvin)	July 6

Ecobric to join USM by placing

ECOBRIC, the newest entrant to the USM, publishes its prospectus today. The company is joining by way of a placing which capitalises the company at £1.76m.

The bulk of Ecobric's turnover, which was £2.6m in the year ended last September, derives from its process of turning cast-iron borings into briquettes which are then sold to industrial customers, such as Ford. The north London group also carries out demolition work.

Ecobric has three classes of shares, including new ordinary shares, existing ordinary and existing deferred. The placing consists of 100,000 units of the shares, with each £4.60 unit containing three ordinary shares, one existing share and one existing deferred share.

The existing ordinary shares are not eligible for a dividend for the financial year ending September 30 1982. The deferred shares are to be converted into ordinary shares when the pre-tax profits of the company exceed £486,112, but not before 1984.

The directors forecast pre-tax profits this year of not less than £350,000 and in view of the fact that a price increase will come into effect this month, they project that the pre-tax goal required for the conversion of the deferred shares should be reached by the year ended September 1983.

The company expects to pay a dividend of 10.5p net on the ordinary shares for the year ended this September.

Dealings in the shares are expected to begin next Wednesday. Ecobric's stockbrokers are Sternberg, Thomas Clarke & Co.

● comment

Ecobric is a small company in a specialised niche which has little glamour in it. It plans to use its USM listing as a platform for expanding its scrap metal processing business, which is now working to capacity. This division has been almost wholly dependent on one customer, Ford, but Ecobric has been working hard to diversify and now sells to some 30 buyers. Ecobric's other business, demolition, will account for 46 per cent of Ecobric's pre-tax profits but shouldn't play a major role in the company's long-term plans. Still, there's very little way to gauge the future for briquettes made of cast-iron borings. The company is trying to whip up enthusiasm with a fairly generous dividend. The promised pay-out of 10.5p on the ordinary gives a 15 per cent yield, but this works out to 9.8 per cent on the whole £4.60 package and 13 per cent once the existing ordinary rank for dividend. A prospective fully-taxed p/e, based on all the ordinary shares, is a non-demanding 6.9 per cent.

M. F. North accepts £9m takeover offer

MR DAVID BARCLAY and Mr Frederick Barclay and the board of M. F. North have reached agreement on the terms of an offer valuing the capital of the hotel propietor at £9.25m. The offers have been made by Hill Samuel and Co. on behalf of a private company wholly owned by the Barclays.

The terms are 37p cash for each ordinary share in North, and 66p for each 4.2 per cent cumulative preference share of £1 each.

Arrangements will be made whereby ordinary shareholders in North may elect to receive, instead of cash, the same nominal amount of 10 per cent unsecured loan stock supported by a bank guarantee. The loan stock will, at the holder's option, be repayable at par as to a maximum of 50 per cent of each holding on April 6, 1983, and as to the balance on or after April 6 1987.

North has recently announced the sale of two of its London hotels for a combined cash consideration of some £2m. Following these sales, it will own and operate nine hotels, of which four are in London, one is in Surrey and four are on the South Coast.

The consolidated net assets of North at December 31 1981 attributable to the ordinary shareholders amounted to £8.8m and the profit and loss account showed a pre-tax profit for the year of some £84,000.

The board of North and its financial advisers, J. Henry Schroder Wagg and Co., consider the terms to be fair and reasonable.

Irrevocable undertakings to accept the ordinary offers have been given in respect of 15.02m ordinary in North, representing 80.1 per cent, including 198,750 ordinary shares beneficially held by certain directors.

ICI pulls out of Japanese venture

BY SUE CAMERON

UK-BASED Imperial Chemical Industries is selling its 50 per cent stake in the Japan-based Kao-Atlas chemical concern to Kao Soap—the other partner in the joint venture—for Y3.4bn (£7.7m).

ICI, which had total sales of £250m in Japan last year, said it was selling its interest in Kao-Atlas because the company's product portfolio did not fit in well with its other Japanese operations.

Agricultural chemicals, dyestuffs, pharmaceuticals and inorganic materials such as catalysts are ICI's main Japanese businesses. The chief interests of Kao-Atlas, on the other hand, are surfactants, which are used in detergent manufacture, and polyester resins, which go into the production of plastics.

The UK-based group acquired its stake in Kao-Atlas when it bought the U.S.-based Atlas Chemicals in 1971 for £66m. Atlas and Kao Soap had set up the joint venture eight years earlier.

Last night ICI stressed that it attached considerable importance to the Japanese chemicals market, which is one of the largest in the world. As well as selling chemicals under its own name in Japan, ICI is a partner in three joint ventures there.

One is with Asahi Glass, and covers the manufacture of a high-performance plastic brand-named Fluon; another is with Sumitomo in the pharmaceuticals field; and the third is with Teijin in the agro-chemicals sector. ICI also has a 25 per cent stake in Nippon Polyurethane Industry, Japan's biggest polyurethan producer.

ELECTRA INVESTS

Electra Risk Capital has invested £251,244 in Templedown, in exchange for a 45 per cent interest, to enable the company to establish more restaurants.

Templedown owns two London restaurants, the Cafe Marengo at Regent Street, and the Brasserie Marengo at Victoria Stret, using a simple food formula.

SPAIN

1981 High	Low		July 2 Price %
366	335	Banco Bilbao	340
362	273	Banco Central	273
324	242	Banco Exterior	242
337	306	Banco Hispano	313
115	109	Banco Ind Cat	109
367	312	Banco Santander	312
235	175	Banco Urquijo	175
395	351	Banco Vizcaya	351
250	216	Banco Zaragoza	237
180	90	Dragados	104
70	60	Espanola Zinc	67
66.5	55.2	Fecsa	55.2
50	26	Gal Preciados	26
68.2	56.2	Hidrola	56.2
59	42	Iberduero	42
1045	71.5	Petroleos	71.5
101	94	Petroliber	91
40	5.5	Sogefisa	6
74	67	Telefonica	67
68	52.5	Union Elect	52.5

BASE LENDING RATES

A.B.N. Bank	12½%
Allied Irish Bank	12½%
American Express Bk.	12½%
Amro Bank	12½%
Henry Ansbacher	12½%
Arbuthnot Latham	12½%
Associates Cap. Corp.	13 %
Banco de Bilbao	12½%
BCCI	12½%
Bank Hapoalim BM	12½%
Bank of Ireland	12½%
Bank Leumi (UK) plc	12½%
Bank of Cyprus	12½%
Bank Street Sec. Ltd.	13½%
Bank of N.S.W.	12½%
Banque Belge Ltd.	12½%
Banque du Rhone et de la Tamise S.A.	13 %
Barclays Bank	12½%
Beneficial Trust Ltd.	13½%
Bremar Holdings Ltd.	13½%
Brit. Bank of Mid. East	12½%
■ Brown, Shipley	13 %
Canada Perm't Trust	13 %
Castle Court Trust Ltd.	13 %
Cavendish G'ty T'st Ltd.	14 %
Cayzer Ltd.	12½%
Cedar Holdings	13 %
■ Charterhouse Japhet	12½%
Choulartons	13 %
Citibank Savings	¶12½%
Clydesdale Bank	12½%
C. E. Coates	13½%
Comm. Bk. of Near East	12½%
Consolidated Credits	12½%
Co-operative Bank	*12½%
Corinthian Secs.	12½%
The Cyprus Popular Bk.	12½%
Duncan Lawrie	12½%
Eagil Trust	12½%
E.T. Trust	12½%
Exeter Trust Ltd.	13½%
First Nat. Fin. Corp.	15 %
First Nat. Secs. Ltd.	15 %
Robert Fraser	13 %
Grindlays Bank	‡12½%
■ Guinness Mahon	12½%
■ Hambros Bank	12½%
Hargrave Secs. Ltd.	12½%
Heritable & Gen. Trust	12½%
■ Hill Samuel	§12½%
C. Hoare & Co.	†12½%
Hongkong & Shanghai	12½%
Kingsnorth Trust Ltd.	14 %
Knowsley & Co. Ltd.	13 %
Lloyds Bank	12½%
Mallinhall Limited	12½%
Edward Manson & Co.	13½%
Midland Bank	12½%
■ Samuel Montagu	12½%
■ Morgan Grenfell	12½%
National Westminster	12½%
Norwich General Trust	12½%
P. S. Refson & Co.	12½%
Roxburghe Guarantee	13 %
E. S. Schwab	12½%
Slavenburg's Bank	12½%
Standard Chartered	‖12½%
Trade Dev. Bank	12½%
Trustee Savings Bank	12½%
TCB	12½%
United Bank of Kuwait	12½%
Whiteaway Laidlaw	13 %
Williams & Glyn's	12½%
Wintrust Secs. Ltd.	12½%
Yorkshire Bank	12½%

■ Members of the Accepting Houses Committee.
* 7-day deposits 9.5%, 1-month 9.75%. Short term £8,000/12 month 12.1%.
† 7-day deposits on sums of: under £10,000 9½%, £10,000 up to £50,000 10¼%, £50,000 and over 11%.
‡ Call deposits £1,000 and over 9½%.
‖ 21-day deposits over £1,000 10½%.
§ Demand deposits 9½%.
¶ Mortgage base rate.

RECENT ISSUES

EQUITIES

Issue price p	Amount paid up	Latest Renunc. Date	1982 High	1982 Low	Stock	Closing price p	+ or −	Div. p. or amount	Times Covered	Gross Yield	P.E. Ratio
¶¶	—	30/7	13	11	Argyll Foods Warr'ts.	12	......	—	—	—	—
¶¶	F.P.	—	48	45	Argyle Trust	45	−5	—	—	—	—
¶250	F.P.	23/6	280	260	Assoc. Heat Services	270	......	b9.0	2.1	4.8	13.7
46	F.P.	30/7	55	50	Bairstow Eves 5p	50	......	b1.61	2.5	4.6	12.2
§90	F.P.	25/6	101	92	✠Black (Michael) 20p	92	......	u3.0	2.4	4.7	12.7
15	F.P.	15/4	32	19	Cambrian & Gen. 7½p	30	......	—	—	—	—
‡260	F.P.	4/6	435	293	✠Cont. Microwave	420	......	b5.25	3.9	1.8	15.6
§58	F.P.	30/7	59	52	✠Dencora	52	......	—	—	—	—
‡130	F.P.	28/6	166	140	✠Druck Hldgs.	166	+1	b2.3	2.5	2.0	28.8
§87½p	F.P.	25/6	98	84	Electro-Prot. US$0.50	90	......	uQ1.5c	5.8	0.9	12.1
—	—	—	17	10	△Group Inv Option	12	......	—	—	—	—
‡137	F.P.	30/7	185	150	✠McCarthy & Stone	184	+1	b5.75	2.7	4.5	11.1
‡105	F.P.	2/7	121	110	✠Miles 33 10p	112	......	ud2.8	4.3	2.6	9.7
600	F.P.	2/7	630	595	Oriflame SA (US$1.50)	600	−5	bQ50c	2.2	4.6	9.6
‡150	F.P.	—	155	150	✠Oilfields Insp. Srvc.	152	......	u2.1	3.7	2.0	17.4
77	F.P.	14/7	97	88	✠Radio City 'A' NV	88	......	b5.6	1.5	9.1	10.3
140	F.P.	29/6	186	160	✠Ruddle (G.) 10p	184	......	b3.3	2.6	2.6	21.7
¶¶	F.P.	—	90	40	Zambia Cons Cpr 10K	50	......	—	—	—	—

FIXED INTEREST STOCKS

Issue price £	Amount paid up	Latest Renunc. date	1982 High	1982 Low	Stock	Closing price £	+ or −
‡100	Nil	9/7	7pm	1½pm	Benlox 8% Conv. Cum. Rd. Pf.	1½pm	......
¶100	£10	26/8	11¼	10½	Bournemouth Water 9% Red. Prf. 8789	11¼	......
¶¶	F.P.	—	146½	150	First Nat. 12½pc Conv. Uns. Ln. 1987	130	......
101	F.P.	30/7	109	107	✠Lon&Cont 11½% Conv.Sub.Uns.Ln.'95-02	108	......
100	F.P.	9/7	101	92½	Marlborough Props. 10% Cnv. Ln. '98-2002	92½	......
98.55	£25	8/10	26	23¾	Midland Bk. 14% Sub. Uns. Ln. 2002-07.	24½	−¼
100	F.P.	—	100⅛	100¼	Nationwide Bdg. Soc. 13½% (3/6/83)	100⅛	......
100	F.P.	—	99⅞	99⅞	Do. 14% (4/7/83)	99⅞	......
99.345	£25	—	25¼	24⅛	New Zealand 14¼% 1987	25⅛	+⅛
¶100	F.P.	—	47	38	RIT & Northern 4pc Net Cum. Prf. £1	41	......
¶100	F.P.	—	46	45	Do. 4.7pc Net Cum. Prf. £1	46	......

"RIGHTS" OFFERS

Issue price p	Amount paid up	Latest Renunc. date ●	Latest Renunc. date ■	1982 High	1982 Low	Stock	Closing price p	+ or −
166	Nil	9/7	6/8	22pm	18pm	Applied Computer Tech	18pm	......
170	F.P.	13/5	24/6	190	180	Bank Leumi (UK) £1	185	......
135	F.P.	28/5	9/7	180	156	Carless Capel 10p	156	−2
174	F.P.	18/6	30/7	233	218	Grand Met 50p	228	......
25	Nil	—	—	2pm	2pm	Jenks & Cattell	2pm	......
50	F.P.	24/6	13/8	58	52	Press (Wm.) 10p	56	−1
325	F.P.	17/6	30/7	445	380	Saatchi & Saatchi 10p	388	−2
215	Nil	5/7	13/8	40pm	28pm	Sketchley	37pm	......
25	F.P.	10/5	10/6	25	24	Young (H.)	25	......

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. z Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. ⊕ Figures or report awaited. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price. p Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." **Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or take-over. ‖‖ Introduction. ☐ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Dealings under special Rule. ✠ Unlisted Securities Market. ‡‡ London Listing. ‡ Effective issue price after scrip. † Formerly dealt in under Rule 163(2)(a). ‡‡ Unit comprising five ordinary and three Cap. shares. △ Issued free as an entitlement to ordinary holders.

THE TRING HALL USM INDEX

124.7 (unchanged)

Close of business 2/7/82

Tel: 01-638 1591

BASE DATE 10/11/80 100

LADBROKE INDEX

Close 538-543 (−8)

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus*) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
Acrow	July 28	Final 0.75
*Alexanders Discount	July 19	Interim 5.5
Allied Colloids	July 16	Final 2.087
Allnatt London	July 16	Final 3.4
*Amersham International	July 12	Final 3.51
*Associated Newspapers	July 15	Interim 4.5
Ault & Wiborg	Aug 5	Interim 0.5
Automotive Products	Aug 13	Interim 1.0
Bank Leumi (UK)	July 27	Interim 3.15
Bath and Portland	July 15	Interim 2.0
*Bilton (P.)	July 26	Final 4.4
Brown (J.)	July 24	Final 2.5
Barclays Bank	Aug 6	Interim 10.5
*Bibby (J.)	Aug 4	Interim 2.4
British Aluminium	Aug 11	Interim 2.0
*Cable and Wireless	July 13	Final due
Carrington Viyella	Aug 13	Interim nil
Commercial Bank Aust.	Aug 13	Final due
Commercial Union	Aug 11	Interim 4.85
*Daily Mail and Genl Trust	July 15	Interim 11.0
Davy Corpn	July 23	Final 4.7
*Distillers	July 15	Final 7.75
Dixons Photographic	July 30	Final 2.179
*Dowty	July 15	Final 2.8
*Fitch Lovell	July 29	Final 3.71
General Accident	Aug 11	Interim 7.5
Gestetner	July 16	Interim 1.25
Glynwed	Aug 5	Interim 2.45
*Granada	July 6	Interim 1.75
GUS	July 16	Final 8.0
*HAT Group	July 13	Final 1.25
Haslemere Estates	July 16	Final 4.56
Hillards	Aug 3	Final 3.75
Hogg Robinson	July 21	Final 3.0
Hoover	Aug 6	Interim due
Illingworth Morris	July 17	Final nil
*ICI	July 29	Interim 9.0
*Imperial Cont Gas	July 6	Final 5.3
*Imperial Group	July 8	Interim 2.75
Initial	July 20	Final 8.25
Lex Service	July 30	Interim 2.8
*Lloyds Bank	July 23	Interim 8.625
Lonrho	July 30	Interim 3.0
MFI Furniture	July 23	Final 1.52
Magnet and Southerns	July 14	Final 3.0
*Midland Bk	July 30	Interim 8.0
*NatWest	July 27	Interim 9.625
Nottingham Manufctrg	July 27	Interim 1.1
Ocean Transport	Aug 11	Interim 4.3
Preedy (A.)	Aug 3	Final 2.75
*Rank Organisation	July 12	Interim 4.8
Rentokil	Aug 5	Interim 1.05
*Rothmans International	July 20	Final 2.65
*SGB	July 5	Interim 2.3
Securicor	Aug 12	Interim 0.55
Smith and Nephew	Aug 11	Interim 1.3
TI Group	Aug 12	Interim 12.5
Taylor Woodrow	Aug 11	Interim 3.15
*Thorn EMI	July 15	Final 10.575
Transport Development	Aug 10	Interim 1.45
Ultramar	Aug 13	Interim 5.0
*Unigate	July 21	Final 4.0
*Union Discount	July 21	Interim 9.0
Vantona	July 28	Interim 3.0
Wagon Industrial	Aug 4	Final 3.0
Woolworth (F. W.)	Aug 12	Interim 1.225

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

M. J. H. Nightingale & Co. Limited

27/28 Lovat Lane London EC3R 8EB Telephone 01-621 1212

£000's capitalisation	Company	Price	Change on week	Gross div.(p)	Yield %	P/E Actual	P/E Fully taxed
4,044	Ass. Brit. Ind. Ord.	120	—	6.4	5.3	10.9	13.4
—	Ass. Brit. Ind. CULS	129	+ 2	10.0	7.8	—	—
4,110	Airsprung Group	71	—	6.1	8.6	8.1	13.9
1,075	Armitage & Rhodes	43	—	4.3	10.0	3.6	8.1
13,870	Bardon Hill	227	+ 6	11.4	5.0	9.5	12.0
1,375	CCL 11pc Conv. Pref.	110	—	15.7	14.3	—	—
4,189	Cindico Group	265	—	26.4	10.0	10.7	12.0
4,643	Deborah Services	60	—	6.0	10.0	3.0	5.6
4,143	Frank Horsell	130	—	6.4	4.9	11.7	24.1
10,690	Frederick Parker	74	—	6.4	8.6	3.8	7.2
978	George Blair	53	—	—	—	—	—
3,980	Ind. Precision Castings	98	—	7.3	7.4	7.1	10.7
2,592	Isis Conv. Pref.	108	+ 1	15.7	14.5	—	—
2,637	Jackson Group	105	− 2	7.5	7.1	3.2	6.7
16,562	James Burrough	120	+ 3	9.6	8.0	8.8	9.8
2,346	Robert Jenkins	230	—	31.3	13.6	3.2	8.1
3,900	Scruttons "A"	75	+ 4	5.7	7.6	9.7	11.7
3,783	Torday & Carlisle	155	—	11.4	7.4	7.0	11.9
3,740	Twinlock Ord.	17½	+ 1	—	—	—	—
2,157	Twinlock 15pc ULS	79	—	15.0	19.0	—	—
3,815	Unilock Holdings	25	—	3.0	12.0	4.5	7.6
10,504	Walter Alexander	83	—	6.4	7.7	5.5	9.7
5,461	W. S. Yeates	234	− 1	14.5	6.2	6.1	12.3

Prices now available on Prestel page 48146.

Public Works Loan Board rates

Effective June 30

Years	Quota loans repaid by EIP†	Quota loans repaid At‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* At‡	Non-quota loans A* repaid at maturity§
Up to 5	13¾	13¾	14	14¼	14¼	14¼
Over 5, up to 6	13¾	13¾	14¼	14¼	14¼	15
Over 6, up to 7	13¾	13¾	14½	14¼	14¼	15
Over 7, up to 8	13¾	14	14½	14½	14½	15
Over 8, up to 9	14	14¼	14½	14½	14½	15
Over 9, up to 10	14	14¼	14½	14¾	14¾	15
Over 10, up to 15	14¼	14¼	14¼	15	15	14¾
Over 15, up to 25	14¼	14	14	15	14¾	14¾
Over 25	14	14	14	14¾	14¾	14¾

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

CREDITS

East European loan market begins to show signs of life

THE PROSPECT of Hungary raising a $200m to $250m credit in the Euromarket have improved with indications on Friday that a group of banks led by Manufacturers Hanover would soon be ready to submit a formal offer to complete the transaction.

This was just one of several developments last week pointing to renewed movement on Eastern Europe's debt problems, while on the other side of the world, as already reported, Argentina officially confirmed that it plans to restructure its $36bn foreign debt.

The Hungarian loan, expected to be for three years with a margin of 1¾ per cent above Eurodollar rates, is intended to restore confidence in a borrower that has been cut off from the syndicated credit market in the wake of the Polish and Romanian debt crises.

As such it is intended to supplement the short-term credits, totalling over $500m, provided by Western central banks to tide Hungary over until it can draw on the International Monetary Fund.

But bankers cautioned last week that even if Hungary accepts the terms of the loan, it will still be a club deal handled by a limited number of banks. The deal has taken a long time to assemble and there is as yet no indication that it would mark a general reopening of the Eurocredit market to Hungary.

The fact is that market caution towards Eastern Europe remains strong, and this is also underlined in the rather lukewarm initial response to Yugoslavia's efforts to raise an 18-month bridging loan of some $200m to $300m from North American banks.

Despite Yugoslav indications to the contrary, bankers said last week that no formal offer to raise the money has been made by the banks, which are simply examining the project on the basis of a 1 percentage point margin over the U.S. prime rate or 1¼ per cent over London interbank offered rate.

As in the Hungarian case, these margins are very generous by comparison with previous borrowings, but some bankers warned that Yugoslavia will have an uphill struggle overcoming the soured relations with the market following its unsuccessful effort to raise a $400m syndicated credit last year.

The current credit may also be harder to organise than that for Hungary because only North American banks will be involved which limits the choice of participants.

Meanwhile, Romania has formally requested a commercial bank rescheduling of some $2.9bn in debts falling due this year and outstanding from last, while Poland is to meet Western bankers in Vienna this week for preliminary discussions on rescheduling 1982 maturities of slightly more than $2bn.

A feature on these discussions is likely to be pressure on Poland to pay at least some interest on its bank debt. Arrears so far this year are already put at around $1bn, and this is one reason why banks have moved to initiate rescheduling discussions before similar talks have got under way between Poland and Western governments.

Argentina's announcement that it wishes to restructure its $36bn foreign debt was not unexpected as its reserves have been seriously depleted since the Falklands crisis, but bankers generally believe that little meaningful progress can be made before Britain lifts the freeze on Argentine assets held in the UK.

Mexico is, however, pressing ahead with its large borrowing programme. It is understood to be arranging a $300m credit for the oil concern Pemex to be provided by Canadian banks under the leadership of the Royal Bank of Canada. This would be a short-term facility designed to finance Canadian imports of Mexican oil and lenders would be able to contribute funds at a margin over Canadian Prime rate as well as Eurodollar rates.

Venezuela is also contemplating a return to the market and may invite bids for a $500m to $1bn credit within the next two weeks. This would be a smaller operation than the recent $2.5bn effort which foundered because of disagreement over terms.

Peter Montagnon

INTERNATIONAL BONDS

Cautious attempt at recovery

THE INTERNATIONAL bond markets tried to stage a recovery last week but ended up in a state more akin to fragile convalescence.

In the background was a decline in short-term interest rates that left six-month Eurodollar deposits about a ½ point lower on the week at 16¼ per cent. The movement, was however, erratic, with rates tending to harden again on Thursday and Friday.

This saw bond markets in a state of renewed caution on Friday, particularly ahead of the long weekend in the U.S. which will bring no guiding indications from the other side of the Atlantic today.

Fixed interest dollar bonds gained 1¾ points over the week, but this includes a fall of about ¾ a point on Friday, underlining fears in the market that any incipient recovery could be stalled by a wave of new issues.

The two new fixed interest rate bonds launched last week, for British Columbia Hydro and Caisse Centrale de Cooperation Economique, were the first in this sector for about a fortnight and by Friday many traders were suggesting that the pricing looked a little tight in a deteriorating market.

The bonds were reported to be selling but slowly and were quoted slightly outside their selling concession discount on Friday afternoon.

The real indication of recovery—net investor buying—did not materialise on any large scale last week, but neither were investors net sellers as they concentrated on swapping existing holdings for positions in better quality issues.

Once again in these days of volatile interest rates, floating rate notes asserted their position in the primary market. Four were issued last week, the latest on Friday being a $75m issue for the Bank of Ireland with a seven-year life margin set at a ¼ per cent over six-month London interbank offered rate.

Deutsch Mark bonds rose by about a ½ point over the week as a whole with the market absorbing four new issues totalling DM 450m reasonably well, although here again caution still prevails and the West German Capital Markets Sub-Committee decided not to set a new calendar of issues at its meeting on Thursday.

Instead the borrowers already with a place in the existing, uncompleted calendar will be allowed to proceed with their issues. This means that the DM 25m placement for the South African Post Office is expected to be brought to the market by Deutsche Bank today.

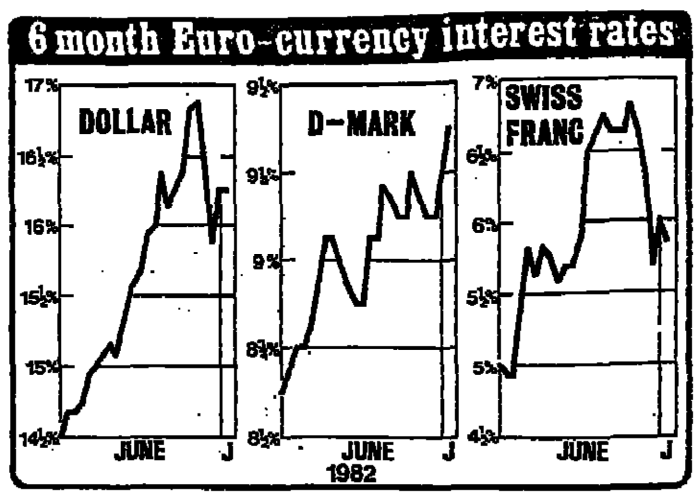
Some other issues in the calendar may yet be withdrawn so that German bankers are expecting a modest new issue programme of around DM 225m before the committee's next meeting in mid-July. This is apart from a bond issue under consideration for the World Bank.

In Switzerland, foreign bonds gained a ¼ point on the week, and the turnround in market conditions was such that the latest 7¼ per cent bond for the World Bank was oversubscribed at its issue price of par.

This partly reflects a marked downturn in Swiss Eurofranc rates, with six months finishing on Friday almost a point lower on the week at 5¾ per cent.

By Friday, however, price advances in the secondary market had once again flattened out somewhat and dealers in Zurich said their market seemed as lacking in directions as bond markets in other major centres.

P.M.



JAPANESE SYNDICATED LOANS

Six-week lending spree exhausts half-year quota

JAPAN'S market for long-term yen loans to foreign borrowers, which was "liberalised" in mid-May to let in all types of borrowers, may be international capitalism's nearest equivalent to a Polish meat counter: there is no more money to lend to the long queues of hungry borrowers.

The yen loan syndication market swallowed virtually all of a six-month "quota" on lending in a brief six-week orgy of loan commitments following a Finance Ministry decision of May 13 to open the gate wider.

Bankers estimate that real demand for yen loans would exceed the Finance Ministry's rough guideline for the half-year to September 30 of about Y300bn-Y350bn ($1.18bn-$1.37bn) by more than 50 per cent, or by Y150bn-Y200bn.

Banks have committed themselves to about Y180bn in around 16 loan syndications. This amount is already close to the half-year limit on such loans, considering that an equivalent amount should be reserved by banks to meet the demand for buyers' credits to finance Japanese exports. Normally such credits equal about half a bank's allocated overseas yen lending, and in most cases are considered better business for the banks.

The Finance Ministry coyly admits that it did not intend to actually "liberalise" the market. It will not allow a dramatic rise in lending to meet the pent up demand which it has helped unleash. The May announcement was clearly aimed mostly at heading off foreign criticism that Japan is opening too slowly its financial markets to outside interests. With the Yen drastically undervalued, officials simply do not want to appear to encourage a rise in capital outflows.

Nonetheless, the Finance Ministry's actions sparked a frenzy of market activity, some of which may be described as over zealous. Some attempts to win loan mandates were judged too aggressive, prompting angry responses from fellow bankers, and stern looks from the authorities.

Such competition is largely unavoidable in a market of about two dozen big banks, 100 smaller banks, 70 foreign banks and six giant life insurance companies.

Adjusting to the game's new rules has been a problem. Until April banks competed to win "slices" of a big pie controlled by the Ministry so putting together a syndicate was not difficult. Now banks are free to drum up any number of potential borrowers. Finding participants has become a serious problem.

The funding problem has been acute in at least two cases, involving loans to CNA, a French financial institution, and to Australia. The lead manager (in both cases the Long-Term Credit Bank of Japan) has apparently raised eyebrows among fellow banks by initially winning mandates to raise about Y20bn for each. This may prove to be more than the market will harmoniously absorb. The average ceiling for a large bank, for example, is said to be Y30bn in total for the half-year.

The Finance Ministry claims it anticipated that the new scheme could cause "some confusion."

The main problem is that the Ministry in effect created a huge new source of potential demand with no serious intention of adjusting the supply.

The market can probably expect lending to fall in the half year beginning in October. Domestic demand for yen funds will be pushed up by a large increase expected in government borrowing, caused by a serious shortfall in revenue. This in turn will reduce the amount for overseas lending.

The market will most likely find itself selling out of goods very quickly early during the next half year as well.

Richard C. Hanson

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
SCI Fin.§‡	12	1997	15	10½	100	Dominick and Dominick R. Nivison	10.500
Den Danske Provinsbank†‡	25	1990	8	5¼°	100	SG Warburg	—
Hapoalim Intl.†‡	50	1987	5	5¼°	100	Bk. Hapoalim (Cayman)	—
Enel†‡	100	1989	7	—	100	Daiwa Secs., SBCI	—
BC Hydro‡	150	1992	10	15¼	99½	Deutsche Bank	15.350
CCCE‡	100	1992	10	15⅞	100	Salomon Bros., Credit Lyonnais	15.875
Bank of Ireland†‡	75	1992	10	5¼°	100	Morgan Grenfell, Inv. Bk. of Ireland, Morgan Gty	—
D-MARKS							
New Zealand	100	1987	5	*	*	Commerzbank	9.250
Emhart Ovs. Cap.	100	1989	7	*	*	BHF	9.601
IADB‡	150	1989	7	9¾	100	Deutsche Bank	9.750
Akzo‡	100	1989	7	9½	99½	Deutsche Bank	9.601
SWISS FRANCS							
OKB‡	100	1992	—	7¼	100	Wirtschafts-und Pvt'bk	7.250
NTT‡	100	1992	—	6½	99¼	CS	6.605
EIB**‡	50	1988	—	7¼	100	UBS	7.250
Daicel Chemical**§‡	40	1987	—	6⅜	100	UBS	6.375
Kitz Corp.**§‡	35	1987	—	6⅜	100	CS	6.375
Abex Intl. Holdings**‡	40	1988	—	7	100	UBS	7.000
Natomas Ovs. Fin	75	1990	—	*	*	SBC	7.750
ECUs							
EIB‡	40	1989	6	13¾	99½	Kredietbank Intl., Soc. Gen. de Banque	13.866
GUILDERS							
EDF‡	150	1992	8	11¼	100	ABN, Amro Bank	11.250

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ° Minimum. § Convertible. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

U.S. BONDS

Apprehensive mood for Wall Street return to business

THE MARKET took off for the long July 4 weekend holiday on Friday night relieved to be getting out of Wall Street but as apprehensive as ever about the shape of things to come.

Some good money supply figures—a $2.2bn decline in M-1 in the latest reporting week—coupled by the fact that last week's $17bn Treasury financing package was not the great disaster Wall Street had expected, helped the holiday start in a relatively festive mood.

Wall Street needs all the relaxation it can get, because business tomorrow, when the markets open again, is likely to be as bad as usual. Indeed, to remind everyone that it continues to hold the star role in the markets, the Treasury plans to sell $10.6bn in three and six-month bills tomorrow. This is higher than the usual $9bn in three and six-month bills the Treasury auctions every week.

Moreover, to rub the point home, the Treasury is also planning to sell $6bn in one-year bills on Thursday to raise $2bn in fresh cash.

The Treasury sales this week are a further foretaste of the pressures government financing needs will put on the markets in the second half of this year. And while last week's $17bn package went off better than expected, it still proved on balance very disappointing for the market.

The sale of short-term bills at the beginning of last week resulted in the inevitable higher yields, but the subsequent $4bn auction of four-year notes lifted the market's spirits because of surprisingly warm investor reception. The four-year notes were sold at an average yield of 14.96 per cent—the highest for such instruments since last September but nonetheless lower than the 15 per cent rate the market had expected.

But the last part of the package, involving the sale of $4bn of seven-year notes last Thursday, brought the market back to reality. The average yield on the seven-year notes rose to 14.2 per cent, the highest rate for such an auction since the beginning of the year. Investors again showed a distinct lack of enthusiasm for the notes and in consequence the auction sent bond prices falling again.

Apart from the Treasury's financing needs, the market continues to be worried by the eternal problem of what will the Fed do in coming weeks in the face of the widely expected bulge in the money supply in July.

Although the Fed Open Market Committee met for two days last week to set its money growth targets for the short term and the preliminary targets for next year, it was no good looking for clues in the overnight market last week. Fed funds swung widely, reflecting what Wall Street likes to call "mid-year aberrations."

Among other things, there was a large seasonal drain on reserves caused by currency demands for the weekend holiday. But the seasonal and technical factors distorting the market will start disappearing this week and the Fed's decisions at the Open Market Committee last week should become clearer. In any event, Mr Paul Volcker, the Fed chairman, is expected to indicate and explain the new monetary targets when he testifies before Congress on July 14.

In general, the market does not expect any significant change in the Fed's short-term posture—if anything, it believes the Fed may increase the current upper limit of its M-1 target range for this year to take into account the distortions in the aggregate caused by the inclusion of new savings accounts. But the market also expects money supply growth in July to dictate the leeway the Fed will have in its operations.

Elsewhere, the Senate Finance Committee approved on Friday a Treasury proposal to sell savings bonds with a floating rate.

Paul Betts

U.S. INTEREST RATES (%)

	Week to July 2	Week to June 25
Fed. Funds wkly av. ...	14.78	14.35
3-month Treas. bills ...	12.41	13.45
3-month cd	15.10	15.51
30-year Treas. bonds...	13.85	14.14
AAA utility	16.15	16.50
AA industrial	15.75	16.00

Source: Salomon Bros (estimates).
In the week to June 23 M-1 fell $2.2bn to $449.8bn.

Squeeze forces countries into short-term borrowing

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

FRESH evidence of a squeeze on international bank lending has emerged with latest figures from the Bank for International Settlements.

The figures point clearly to an increased reliance by developing countries, particularly in Latin America, and *Eastern Europe on short-term* loans maturing in one year or less.

During the second half of last year many countries were also unable to increase their stock of undrawn loan commitments which could be used to meet financing requirements in 1982.

Short-term bank borrowing by Latin American countries rose by $11.2bn to $91.4bn during *the second half of last year* while undrawn loan commitments fell by $497m to $28.2bn.

The bank, which is a leading monitor of international banking flows, also reported that short-term borrowing by East European countries rose by $2.9bn to $25.6bn while undrawn loan committments fell by $554m to $7.1bn during the same period.

The figures are based on re*ports from international banks* based in the Group of Ten leading industrial countries and Switzerland, Ireland, Austria and Denmark as well as leading offshore banking centres.

They show there was a general trend towards shorter term bank lending in the second half of last year, affecting even developed countries outside the bank's reporting area. These countries saw the share of medium-term finance in their new bank borrowings drop to 39.6 per cent in the *second half of 1981 from 43.6* per cent in the previous six months.

The developed nations group, which includes countries such as Australia, Greece, Spain and Yugoslavia, also suffered a slight reduction in their undrawn loan commitments.

By contrast, Far Eastern borrowers, which have been courted by banks because of their strong economic growth rates, managed to notch up an additional $1.4bn in unused loan commitments, although they too *found medium-term finance* harder to obtain.

BORROWING FROM INTERNATIONAL BANKS BY COUNTRY

($m) at December 31, 1981

	Total	Due in 1 year	Due in 2 years	Due after 2 years	Unallocated	Undrawn commitments
Argentina	24,844	11,561	2,965	9,498	820	3,939
Brazil	52,717	18,330	4,309	25,009	5,069	6,109
Mexico	56,937	27,656	4,772	22,617	1,892	7,328
Poland	15,283	5,522	1,899	5,310	2,552	1,797
Hungary	7,697	3,113	555	3,459	570	353
Yugoslavia	10,700	3,035	819	5,091	1,755	1,273
S. Korea	19,907	11,534	1,321	6,549	503	4,145
Philippines	10,204	5,764	460	3,706	274	2,813

Workers at Inco accept new contract

By Richard Mackie in Toronto

WORKERS AT Inco, the world's largest nickel producer, have voted overwhelmingly to end their 32-day strike. They will go on unemployment insurance, however, instead of back to work because the company has extended its annual summer shutdown for an additional five weeks until October 3 because of falling demand.

About 80 per cent of the votes cast favoured ending the strike by members of the United Steelworkers of America. The offer accepted was almost identical to the one that 72 per cent of local members voted had rejected a month earlier.

The new contract will be for three years with a full cost of living allowance but without an increase in the current hourly wage rate. However, if the inflation rate remains near its current level of 11.8 per cent for the life of the contract, the hourly rate would climb to C$16.06 *(U.S.$12.40)* from the present C$11.54, well above the 6 and *5 per cent guidelines sought* by the Federal Government.

France sets up key machine tools group

BY TERRY DODSWORTH IN PARIS

FRENCH state-owned companies will be the main shareholders in a holding group being set up as part of the reorganisation of the country's stricken machine tool industry.

The group, created after six months of intensive negotiations led by the Industry *Ministry*, will take over a number of private machine tool companies. These activities are then to be split into two main operating concerns specialising in milling and turning.

Virtually all the companies being absorbed by the holding operation, to be called Machine Fraincaise Lourde (MFL), are in financial trouble. The terms on which they are being merged have not been disclosed, but the Ministry said that *MFL will* have a capital of FFr 250m ($37m), and that there will be some job losses.

In December of last year, the Ministry announced sweeping plans for revitalising the sector through a mixture of investment aid, new central purchasing plans and the restructuring of manufacturing. A total of about FFr 4bn was set aside for the *project*.

With much of the industry in losses, however, it has proved difficult to find strong companies around which the regrouping could be planned. Hence, the emergence of the nationalised companies to lend weight to MFL.

The leading shareholder is to be the Institut de Developpement Industriel (IDI), a government-backed agency which frequently entervenes to help companies.

IDI will have 35 per cent of MFL, with the rest being shared by nine other companies—SNECMA (aero engines), SNIAS (aerospace), Dassault (aerospace), Sacilor (steel), Usinor (steel), Creusot-Loire (engineering), Alsthom-Atlantique (electrical plant), Renault (motors), Peugeot (motors). Of these, only Peugeot and Creusot Loire, a subsidiary of the Empain Schneider group, are private. All the rest are either fully nationalised or controlled by the state.

MFL's mining subsidiary will be formed from two companies, Albert, which belongs to the Line group, and Capdenac, currently part of TMI. The turning division will take over Saint Etienne Machines Outils and the Berthiez plant at Givors.

ESAB makes changes in subsidiaries' top posts

● Consolidating ESAB's purchase of Hancock GmbH from BOC at the end of 1981 and combining it with its gas-cutting division in Karben near Frankfurt, into a company named ESAB-HANCOCK, Mr Horst Peters, formerly sales manager of ESAB, gas-cutting machines, has been appointed managing director.

ESAB has also appointed Dr Peter Jarl, formerly managing director of ESAB International in Gothenburg, to be managing director of ESAB, Solingen.

Mr Lars Brodd, formerly with ESAB International on the sales side has been appointed managing director of the recently established company ESAB Middle East in Dubai.

Mr Rustan Bergman, formerly a director on ESAB group management has been appointed managing director of ESAB Iberica, Madrid.

Mr John Forsell, group personnel director has been also appointed secretary on the ESAB group management board of directors.

Mr Frank J. Hannah, publicity manager at ESAB, Gillingham, Kent, returns to Sweden as international public relations manager at ESAB group headquarters in Gothenburg.

INTERNATIONAL APPOINTMENTS

● **Dr Hartwig Bartels** has joined the managing board of NATIONAL WESTMINSTER BANK'S wholly-owned German subsidiary Deutsche Westminster Bank. He has served with Chase Manhattan Bank in Germany for 16 years, most recently as managing director of Chase Bank in Frankfurt. Deutsche Westminster Bank opened in Frankfurt in January following the merger of National Westminster operations in Germany.

Mr William H. King

● **Mr William H. King** has been appointed managing director of DEUTSCHE MARATHON PETROLEUM in Munich. He is succeeding **Mr H. Donald Dobe** who returns to the domestic organisation of Marathon Oil Company, as manager of the Illinois refining division. Mr King was manager of the Michigan refining division in Detroit. Deutsche Marathon is a shareholder of Deutsche Transalpine Oelleitung and of *Petroliber in Spain. Mara*thon Oil Company is a wholly-owned subsidiary of United States Steel Corporation.

● At BANK OF LONDON AND SOUTH AMERICA (a Lloyds Bank subsidiary) the following executives have been appointed to the board: **Mr P. J. Bareau**, general manager, Brazil; **Mr J. E. A. Field**, chief manager, Spain; **Mr A. G. G. McWilliam**, general manager, River Plate circuit and **Mr J. R. Turley**, executive vice president and general manager, North America division, New York. At LLOYDS BANK INTERNATIONAL (FRANCE) **Mr P. M. R. d'Adhemar**, chief manager, France, has been appointed to the board and **Mr E. A. Allan** has resigned from the board on his appointment as chief inspector, Lloyds Bank International.

● FAIRCHILD SWEARINGEN CORP has appointed **Mr Alan B. Kehlet** as president. He was formerly president of Rockwell International's Sabreliner division.

● **Mr Michael P. Fenton** has joined TECHNICOLOR AUDIO-*VISUAL as vice president*, finance.

● **Ms Hanna Holborn Gray**, president of the University of Chicago, has been appointed to the board of the ATLANTIC RICHFIELD COMPANY, becoming its first woman director.

● *MASSEY - FERGUSON*, Toronto, has appointed **Mr Robin H. Warrender** as a director. He is chairman and chief executive of Bain Dawes, London, and a director of Massey-Ferguson Holdings, a holding company in the UK.

● **Dr Herbert Culmann**, who had been chairman of the LUFTHANSA executive board for almost ten years, has handed over the post to his successor, **Mr Heinz Ruhnau**, former State Secretary in the West German Transport Ministry. Since April 1, Mr Ruhnau had been deputy chairman of the airline's executive board. This position has been taken by **Mr Reinhardt Abraham**, who has been on the executive board since 1972 as member responsible for technical matters: his responsibility for this area continues.

● NATIONAL WESTMINSTER BANK has established a group mining and metals office in New York. Staffed by personnel drawn from NatWest and its wholly-owned subsidiary, National Bank of North America, the office is under the direction of **Mr Alistair Beeston**, who has been appointed senior vice president. He was formerly a manager in the bank's London-based global energy unit. Other appointments include **Mr Gary Rauch** and **Mr Nick Bown**, both vice presidents, and **Mr Ian Scurfield**, assistant vice president. Mr Rauch has been seconded from National Bank of North America, New York, and Mr Bown and Mr Scurfield were in NatWest's mining and metals unit in London.

● The SOUTH AFRICAN CHAMBER OF MINES has elected **Mr William Malan**, Anglovaal technical director, as president in succession to **Mr Lynne Van Den Bosch**. **Mr Colin Fenton**, head of Gold Fields of South Africa gold division, and **Mr George Nisbet**, Johannesburg Consolidated Investment Company gold and uranium division chairman, were elected vice-presidents.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Aetna Life 15 86/97 ...	150	101¼	107¾	+1½	+2½	14.44
Amax Int. Fin. 16¼ 92	75	97¼	97¾	−0¼	+1¼	16.74
Amex O/S Fin. 14¼ 89	75	94	94½	+0¼	+0½	15.64
APS Fin. Co. 16¼ 89 ...	75	99¾	100¼	0	+1½	15.21
ATT 14¼ 89	400	101½	102¼	+0¼	+1¼	13.73
Baker Int. Fin. 0.0 92	225	126	25½	+0½	+1	14.87
BHP Finance 14½ 89 ...	150	94½	95¼	−0½	+1	16.00
Bk. Amer. NT SA 12 87	200	89½	90	+0½	+1½	15.12
Bk. Montreal 14½ 87 ...	100	95¾	96¼	+0¼	+1½	15.70
Bque. Indo Suez 15 89	100	94¾	95¼	−0¼	+1¼	16.20
British Col. Hyd. 14½ 89	200	96¾	97¼	+0¼	+1¼	15.49
Burroughs Int. 15½ 88	50	99¼	99¾	0	+1½	15.79
Canada 14½ 87	750	96¾	97¼	−0¼	+0¼	15.31
Canadair 15½ 87	150	99¼	99¾	−0½	+0¼	15.55
Canadian Pac. 14½ 92	75	94½	95	0	+1	15.69
Carolina Power 16½ 89	60	100½	100¾	−0¼	+2¼	16.30
CIBC 16 87	100	100½	100¾	+0¼	+1½	15.73
Citicorp O/S 15 84/92	100	99¾	100¼	+0½	+1½	14.88
Citicorp O/S 15½ 85/97	125	99¾	100¼	+0¼	+1½	15.32
CNA 15¾ 97	75	95¼	96¼	0	+0¼	16.57
Con. Illinois 15¾ 89 ...	100	99¾	99¾	+0¼	+0¾	15.78
Duke Pwr. O/S 15½ 89	60	94½	95¼	−0¼	−0½	16.77
Dupont O/S Cap. 0.0 90	300	34¾	35¼	−0¼	+1¼	14.85
ECSC 14¾ 87	50	96¼	96¾	−0¼	+1½	15.75
EIB 15½ 89	150	98¾	99¼	−0¼	+1¼	15.66
Eksportfinans 14½ 89 ...	50	95	95½	+1½	+2¼	15.64
Gen. Elec. Credit 0.0 92	400	27¾	28¼	0	+1¼	14.19
Gen. Elec. Credit 0.0 93	400	24	24½	0	+1¼	14.26
Getty Oil Int. 14 89 ...	125	96¾	97¼	+1¼	+2½	14.72
GMAC O/S Fin. 16 88	150	99¾	100¼	−0¼	+1¼	15.96
GMAC O/S 15¾ 85/97	100	98¾	99¼	+0¼	+1¼	15.53
GMAC O/S Fin. 15 89	125	96¼	96¾	0	+1¼	15.84
GMAC O/S Fin. 15 87	100	97¾	98¼	+0¼	+1¼	15.54
Gulf Canada Ltd 14¾ 92	100	95	95½	+0¼	+1¼	15.69
Gulf Oil 14¾ 94	175	97½	98	+0¼	+1¾	14.83
Gulf Oil Fin. 0.0 92 ...	300	27½	27¾	+0¼	+1¼	14.34
Gulf States O/S 16 90	60	96¼	96¾	−0¼	+1¼	16.82
Int-Am. Dv. Bk. 15¾ 87	55	96¼	96¾	+0¼	+0¼	16.09
Japan Dev. Bk. 15½ 87	60	101¼	101¾	0	+1	14.91
New Brunswick 16¼ 89	75	100¾	101¼	+0¼	+2¼	15.93
Ontario Hydro 14¾ 89...	150	96¾	97¼	+0¼	+1¼	15.42
Pac. Gas & El. 15¾ 89	45	99¾	100¼	−0¼	+1¼	15.42
Phillips Petrol 14 89 ...	200	94¼	94¾	+0¼	+1½	15.32
R.J. Rynlds. O/S 0.0 92	400	26¾	27¼	+0¼	+2¼	14.51
Saskatchewan 16 89 ...	125	100¾	101¼	+0¼	+1½	15.66
Shell Canada 14¾ 92 ...	125	95¼	95¾	+1¼	+1¼	15.24
Spain 15¾ 87	100	99	99½	−0¼	+0¼	15.92
Superior O/S Fin. 14 89	125	93¾	94¼	+1½	+2¼	15.45
Swed. Exp. Cr. 15¾ 89	100	97¾	97¾	−0¼	−0¼	15.79
Swed. Exp. Cr. 14¾ 90	100	93¾	94½	−0¼	+0¼	16.15
Swed. Exp. Cr. 0.0 94	200	19½	20	−0¼	+1¼	14.89
Texas Eastern 15¾ 89...	60	101¼	101¾	+0¼	+2	15.36
Union Carbide 14¾ 89	150	96¾	97½	+1½	+2¼	15.42
Wells Fargo I. F. 15 87	75	97¾	98¼	+0¼	+1¼	15.52
World Bank 15½ 88 ...	250	97¾	98¼	+0¼	+1	15.70
World Bank 14¾ 87 ...	500	95¼	95¾	+0¼	+1½	15.80

Average price changes .. On day +0¼ on week +1¾

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 9¼ 92	150	98¾	99¼	−0¼	+0¼	9.40
Australia 9¾ 91	300	102¼	103¼	−0¼	+0½	8.92
Australia 9¾ 91	200	103	103¾	−0¼	+0¼	8.78
Austria 8¾ 92	100	95	95½	−0¼	+0¼	9.12
Barclays O/S In. 8¾ 94	100	95¼	95¾	+0½	+1¼	8.95
Canada 8½ 89	200	101¼	101¾	+0½	+0½	8.20
Comp. Tel. Esp. 10½ 92	100	101	101½	+0¼	+0¼	10.27
Cred. Foncier 8¾ 92	100	96¾	96¼	−0¼	+0¼	9.28
Denmark 10 88	100	101½	102¼	+0¼	+0¼	9.53
Denmark 10¼ 92	100	102¼	103¼	+0¼	+0¼	9.64
EDF 9¾ 92	100	100¼	100¾	0	+0¼	9.78
EEC 9¼ 94	200	101¾	102¾	0	+0¼	9.42
EIB 8½ 92	100	95	95½	0	+0¼	9.12
Int.-Am. Dev. Bk. 9 92	150	97¾	98¼	−0½	0	9.35
Ireland 10¼ 86	100	101¾	102½	−0¼	+1¼	9.49
Nacnl. Financiera 11 90	150	96½	97	0	+0¼	11.64
Philip Morris 8¾ 90	100	99¾	100¼	−0¼	+0½	8.24
Quebec 10¼ 92	150	102¾	103¼	+0¼	+0¼	9.68
Renfe 10 92	100	100	100½	+0½	+1¼	9.95
SNCF 8¾ 92	100	96¾	96¾	−0¼	+1¼	9.23
Tauernautobahn 9¾ 94	50	101¼	102	−0¼	+0¼	9.59
World Bank 9½ 89	100	100¾	101¼	+0¼	+0¼	9.28
World Bank 8½ 92	200	95¾	96½	0	+1¼	9.17

Average price changes... On day 0 on week +0¼

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Air Canada 6¾ 92	100	100¼	101	−0¼	−0¼	6.13
Asian Dev. Bank 7 92	100	101	101¼	+0¼	+0¾	6.84
Aucelsa 7¾ 92	80	96¼	96½	−0¼	−0¼	8.30
Australia 6½ 94	100	104¼	104¾	−0¼	+1¼	5.95
Cse. Nat. l'Energie 7 92	100	101¼	101½	+0½	+0¼	6.80
CFE-Mexico 8¾ 92	50	97	97¾	−0¼	+0¼	8.89
Co-op. Denmark 8¾ 92	25	103½	104	−0¼	+0¼	7.80
Crown Zellrch. 6¾ 92	100	100¾	101¼	+0½	+2	6.60
Europarat 7¼ 92	100	100¼	100¾	−0¼	+0¼	7.16
Ind. Fund Finland 6¾ 92	30	99¼	99½	0	+0¼	6.98
Japan Dev Bank 6 94	100	99¾	99¾	−0¼	−0¼	6.06
Kobe City 6¼ 92	100	100¼	100¾	−0¼	+1¼	6.04
Kommunlane 7¼ 92	35	100¼	100¾	−0¼	0	7.15
Mitsui OSK 6½ 92	100	100	100¼	+0¼	+1½	6.44
National Pwr. Co. 8 92	30	103	103¾	−0¼	−0¼	7.52
New Zealand 6 92	100	101	101¼	−0¼	+1½	5.83
OKB 7¾ 92	100	104	104¼	−0¼	+0¼	7.14
Ost. Postspar 7½ 92	100	102½	102¾	0	0	7.11
Philip Morris 6¾ 92	100	102¾	103¼	−0½	+0¾	6.20
Philip Morris 6¾ 94	100	101¼	101½	−0¼	+0½	6.08
Quebec 7¾ 92	100	105¼	105½	+0¼	+0½	6.60
Renfe 7¾ 92	80	97	97¼	0	−0¾	8.18
Sekisui Pre. 5¾ 92 WW	70	103½	104¼	+0½	−1¼	5.22
Soc. Lux. de Cnt. 8¼ 92	80	105¼	105¾	−0¼	−1¼	7.19
Tiroler Wasser 6¾ 92	100	96½	96¾	0	−0¼	6.72
Vorarlberg Kraft 6¾ 92	50	103	103¾	−0¼	+0¼	6.31

Average price changes... On day −0¼ on week +0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
EIB 8¼ 92	15	97	97¾	0	+0¼	8.65
Int.-Amer. Dev. 8¾ 91	15	101½	102½	+0¼	+0¼	8.56
Japan Airlines 7¾ 87...	9	95¼	95¾	+0¼	+0¼	9.06
New Zealand 8¼ 87.....	15	99¼	100¼	0	0	8.47
World Bank 8¼ 92.....	20	98¾	99¼	+0¼	+0¼	8.52

Average price changes... On day +0¼ on week +0¼

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Bell Canada 16 89 C$...	100	†97	97½	+0½	+1¼	16.84
Can. Pac. S. 16¼ 89 C$	50	†97¼	97¾	+0¼	+0½	16.97
Crd. Foncier 17¼ 89 C$	30	†98¾	99¼	+0¼	+0¼	17.34
Gaz Metro. 17¼ 90 C$	20	†96¼	96¾	+0½	+0¼	18.02
OKB 16½ 88 C$	63	†96¾	97¼	+1	+2¼	17.08
Q. Hyd. 16¾ 89 (My) C$	50	†99	99½	0	+0½	16.68
Quebec Prov. 16½ 89 C$	50	†99¼	99¾	+0¼	+1¼	16.57
U. Bk. Nwy. 9¼ 90 EUA	18	90¼	92	−0¼	+0¼	11.21
Amro Bank 10 87 Fl	150	98¼	99¼	+0¼	+0¼	10.25
Bk. Mees & H. 10 87 Fl	75	97¾	98¼	−0¼	−0¼	10.56
Eurofima 10½ 89 Fl	50	99¼	99¾	−0¼	−0½	10.61
Ireland 10½ 87 Fl	75	97½	98	0	+0½	11.07
Phil. Lamps 10¼ 87 Fl	100	99¼	99¾	−0½	+0¼	10.33
World Bank 10 87 Fl	150	97¾	98¼	−0¼	+0¼	10.57
OKB 14 86 FFr	400	92¼	93¼	+0¼	−0¼	16.73
Solvay et C. 14¾ 86 FFr	200	92	93	0	−0¼	17.58
Beneficial 14¼ 90 £ (D)	20	87¾	88¾	0	0	16.93
BNP 13½ 91 £	15	93¾	94¼	+0¼	+0¾	14.76
CECA 13½ 88 £	20	94¾	95¼	0	+0¼	14.78
Fin. Ex. Cred. 13¾ 86 £	15	96¼	97¼	+0¼	+0¼	14.88
Gen. Elec. Co. 12½ 89 £	50	92¾	93¾	+0¼	+0¼	14.25
Hiram Walker 14¼ 86 £	25	97¾	98¼	+0¼	+0¼	14.83
Norsk Hydro. 14½ 87 £	30	98½	99¼	0	+0¼	14.80
Privatbanken 14½ 88 £	12	95¾	96¼	−0¼	+0¼	15.51
Quebec 15½ 87 £	35	101½	102¼	0	0	14.94
Reed (Nd) NV 16¾ 89 £	25	103½	104¼	−0¼	+0¼	15.64
Royal Trustco 14 86 £	12	98	99	+0¼	+0¼	14.46
SDR France 15½ 92 £	30	99½	100½	0	+0¼	15.46
Swed. Ex. Cr. 13¾ 86 £	20	97	98	0	+0¼	14.60
Eurofima 10½ 87 LuxFr	500	95¼	96¼	0	+1¼	11.58
EIB 9¾ 88 LuxFr	600	92¾	93¾	0	+1¼	11.42

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Allied Irish 5¼ 92	0¼	98	98½	15/10	15.69	15.97
Bk. of Tokyo 5¼ 91 (D)	0¼	98¾	99¼	8/12	15¼	15.42
Bk. Nova Scotia 5¼ 93	0¼	98¾	99¼	29/10	16¼	16.30
BFCE 5¼ 88	0¼	98¾	99¼	28/10	15	15.15
BFCE 5¼ 87	0¼	99¼	99¾	27/7	16¼	16.31
BNP 5¼ 89 WW	0¼	98¾	99¼	6/11	15.19	15.42
Caisse Nat. Tele. 5¼ 90	0¼	99	99½	21/10	15¼	15.87
CCCE 5¼ 2002	0¼	98¼	98¾	11/12	15¼	15.61
CEPME 5¼ 92	0¼	98¾	99¼	10/12	16.44	15.57
Chemical NY 5¼ 94	‡0¼	99	99½	23/9	*16.69*	*16.81*
Cont. Illinois 5¼ 94	‡0¼	98¾	99¼	24/9	16¼	16.54
Credit Agricole 5¼ 97	0¼	98¾	99¼	24/9	15.44	15.52
Credit du Nord 5¼ 92	0¼	98¾	99¼	23/12	16.81	16.96
Credit Lyonnais 5¼ 97	0¼	99	99½	1/10	16	16.12
Credit Nat. 5¼ 94	‡0¼	98¾	99¼	9/9	14.69	14.91
Denmark, Kngdm. of 92	0½	†99	99½	25/8	15.44	15.57
Ireland 5¼ 89/94	0¼	†98	98½	25/11	14¾	15.01
Kansallis Osake 5½ 92	0¼	98¾	99¼	6/11	15.31	15.49
Lloyds Eurofin 5¼ 93	§0¼	98¾	99¼	29/10	17¼	17.28
Long Term Cred. 5¼ 92	0¼	98	98½	29/11	14¾	14.89
J. P. Morgan 5¼ 97	§0¼	98¾	99¼	12/8	14¾	14.77
Nat. West. Fin. 5¼ 91	§0¼	99¼	99¾	15/7	15.19	15.26
New Zealand 5¼ 87	0¼	99	99½	7/10	15.56	15.68
Nippon Credit 5¼ 90	0¼	99½	99¾	10/8	16.06	16.16
Offshore Mining 5¼ 91	0¼	98¾	99¼	2/12	14.19	14.36
PKbanken 5 91	0¼	99	99½	17/12	15.81	15.93
Scotland Int. 5¼ 92	0¼	98½	99	23/9	15¼	15.57
Sec. Pacific 5¼ 91	0¼	98¾	99¼	24/11	15	15.17
Societe Generale 5¼ 95	0¼	99	99½	1/9	15.31	15.43
Standard Chart. 5¼ 91	0¼	98½	99	18/11	14¾	15.06
Sweden 5¼ 89	0¼	98¾	99¼	28/8	15.31	15.41
Toronto Domin'n 5¼ 92	0¼	98¾	99¼	11/8	16¼	16.52

Average price changes... On day 0 on week +0¼

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 5¼ 96	7/81	933	81	82¼	−1	2.58
Bow Valley Inv. 8 95	4/81	23.12	96¼	97	−2¼	67.46
Bridgestone Tire 5½ 96	3/82	470	82¾	84¼	−1½	−2.29
Canon 7 97	7/82	748.2	89½	91	−1¼	0.40
Canon 6¾ 95	1/81	828	83	85	−2	19.83
Chugai Pharm 7¼ 96	7/82	709.6	96¾	98	−1¼	1.52
Fujitsu Fanuc 4¼ 96	10/81	5641	79¾	81¼	−1¼	12.53
Furukawa Elec. 5¼ 96	7/81	300	80½	82	−1½	−7.38
Hanson O/S Fin. 9½ 96	8/81	1.36	†78	79	−6	−17.99
Hitachi Cable 5¼ 96	2/82	515	81½	83	−2½	1.22
Hitachi Cred. Cpn 5 96	7/81	1612	74½	76	−0¼	13.45
Honda Motor 5½ 97	3/82	841	81½	83	−0¼	3.98
Kawasaki 5¼ 96	9/81	229	62½	64	−0½	14.53
Marui 6 96	7/81	846.4	94	95½	−0½	−0.58
Minolta Camera 5 96	10/81	826.4	80½	82	−0¼	32.99
Minebea 5¾ 97	5/82	8.16	†77	79	+1	34.28
Murata 5¼ 96	7/81	2168	64½	66¼	−1¼	16.93
NKK 6½ 96	7/81	188	69¼	70½	−0½	−23.18
Nippon Chemi-C. 5 91	10/81	819	81	83	0	21.70
Nippon Electric 5¼ 97	2/82	846	83½	85¼	−2¼	5.32
Orient Finance 5¼ 97	3/82	1205	84¾	86¼	−0¼	7.25
Sanyo Electric 5 96	10/81	652	63¼	64¾	−1¼	11.96
Sumitomo Elec. 5½ 97	3/82	677.3	80½	82	−2¼	8.71
Sumitomo Met. 5¼ 96	10/81	296.1	67½	63	−0¼	35.44
Swiss Bk. Cpn. 6¾ 90	9/80	191	71½	73½	0	29.51
Konishiroku 6 90 DM	2/82	585	*100¼	101¾	−1¼	4.94
Mitsubishi H. 6 89 DM	2/82	263	*90½	90½	−0¼	28.73

EUROBOND TURNOVER
(nominal value in $m)

	Cedel	Euro-clear
U.S. $ bonds		
Last week......	5,083.9	7,896.6
Previous week	8,473.3	8,062.7
Other bonds		
Last week......	726.4	651.7
Previous week	767.1	593.4

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn=The current coupon. C.yld.=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; *Union Bank of Switzerland*; Akroyd and Smithers; Bank of Tokyo International; Bankers Trust International; Chase Manhattan; Citicorp International Bank; Credit Commercial de France (Securities) London; Daiwa Europe NV; Deltec Securities (UK); EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nikko Securities Company (Europe); Orion Royal Bank; Samuel Montagu and Co.; Scandinavian Bank; Societe Generale Strauss Turnbull; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on July 2

Lloyd's divestment clause intact after Lords review

BY JOHN MOORE, CITY CORRESPONDENT

THE House of Lords committee reviewing the Lloyd's Bill for improving the insurance market's self-regulation last week allowed the legislation to go forward to its next stages with only minor changes.

The controversial clause, requiring Lloyd's brokers to sell off their shareholding links with underwriting agencies in five years because of conflicts of interest, still remain in the body of the legislation. The clause, which is opposed by many brokers, is unlikely to be amended.

The central problem now for the brokers is valuing their managing agencies which have to be sold.

Lloyd's estimated that 114 out of a total of 198 Lloyd's managing agencies, the groups which run underwriting syndicates at Lloyd's will be affected. Of the 114, there are 64 groups where 50 per cent or more of the issued share capital is controlled by Lloyd's broking interests.

The parliamentary requirement for divestment may be met by the agency disposing of the managing agency functions —that is, the right to run syndicates—and converting itself into a members' agency. A members' agent finds new members for Lloyd's, manages their affairs and introduces theme to underwriting syndicates. Brokers will still be able to own members' agencies after divestment.

According to Lloyds' it is possible that some agencies will split. The managing agency may be sold to existing independent managing agencies or the members of Lloyd's or other purchasers.

The main factors which will influence valuation are: the number of members for whom the agency acts; the agency profit; and the agency income.

Lloyd's officials think the most appropriate "broad brush" basis for a valuation would be to apply a multiplier of five to six times the agency's pre-tax profits.

The 114 agents has net pre-tax profits of about £17m. Even allowing for management charges payable to other companies Lloyd's says it is unlikely that the profits would be more than £20m.

Taking the factor of six times pre-tax profits, the total valuation is £120m. This estimate of £120m represents a possible price of disposing of all shares in all agencies which have a divestment problem. Lloyd's says it would not be unreasonable to discount the £120m by, say, 20 per cent to reflect those cases where the share disposal will represent a minority holding. This would bring the overall figure down to £96m.

Lloyd's has observed that the method of separating members' agents from managing functions may vary. It has been told that the overall agency valuation divides roughly in half. It has also been told that some members' agencies are valued on the basis of £5,000 per member.

The 114 agencies act for about 12,000 members which would give £60m, half of the £120m total valuation.

Lloyd's has concluded that if no members' agency functions are retained by the broker, the total amount realised in a sale would be £96m. If all the members' agency functions are retained by the broker, about £48m could be gained from the disposal of managing agents. If the final approach to divestment varies in any way from those alternatives, Lloyd's reckons that brokers could receive £50m-£70m in the eventual sale.

This week in Parliament

TODAY

Commons: Private members' motions until 7 pm. Followed by debate on a Liberal motion on specific and practical measures to reduce unemployment. Duchy of Cornwall Management Bill, Second Reading.

Lords: Transport Bill, Committee. Forfeiture Bill, Report.

Select Committees: Home Affairs, sub-committee on Race Relations and Immigration. Subject: Racial Disadvantage. Witness: Mr Anthony Newton, MP, Parliamentary Under-Secretary of State, Department of Health and Social Security (Room 15, 11.00 am).

Treasury and Civil Service. Subject: International Monetary Arrangements. Witnesses: Mr Bryan Gould, Mr John Mills and Mr Suan Steward, Labour Economic Policy Group; Prof Artis, Manchester University. (Room 15, 4.30 pm.)

TOMORROW

Commons: Conclusion of defence debate. Motions on National Health Service (charges to visitors) (No. 2) Regulations.

Lords: Firearms Bill, Third Reading. Employment Bill, Committee. Cinematograph (Amendment) Bill, Third Reading.

Select Committees: Employment, Subject: The working of the Health and Safety Commission and Executive: Achievements since the Robens Report. Witnesses: Society for the Prevention of Asbetsiosis and Industrial Diseases; Sir Bernard Braine DL, MP (Room 8, 4.00 pm.)

Procedure (Finance)—Subject: Procedure (Finance). Witness: The Rt Hon Edward du Cann, MP (Room 15, 4.15 pm). Parliamentary Commission for Administration—Subject: Reports of the Parliamentary Commissioner for Administration. Witnesses: Cheltenham District Health Authority (Room 5, 5.00 pm).

WEDNESDAY

Commons: Local Government Finance (No. 2) Bill, conclusion of consideration of Lords amendments. Motions on the international fund for agriculture development and the African development fund orders, and Building Societies (Special Advances) Order.

Lords: Employment Bill, Committee. Forfeiture Bill, Third Reading.

Select Committees: Scottish Affairs — Subject: Prestwick Airport. Witness: Mr Iain Sproat, MP, Parliamentary Under-Secretary for Trade (Room 5, 10.30 am). Industry and Trade—Subject: UK trade with ASEAN countries. Witnesses: Mr Peter Rees QC, MP, Minister for Trade, plus officials; and South-East Asia Trade Advisory Group (Room 16, 10.45 am). Welsh Affairs—Subject: The impact of the European Community on Wales Witnesses: Borough of Torfaen (Room 18, 11.30 am).

THURSDAY

Commons: Debate on the Army, on a motion for the adjournment.

Lords: Northern Ireland Bill, Second Reading. Various Northern Ireland orders. Short debate on the Rayner recommendations on the Theatre Museum.

FRIDAY

Commons: Private Members' Bills.

Lords: Transport Bill, committee stage.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS—
Allied Leather Inds. Victoria Hotel, SW, 12.00
Brook Street Bureau of Mayfair. Europa Hotel, Grosvenor Square, W 12.00
Energy Services and Electronics. Institute of Directors, 116, Pall Mall, SW, 12.00
Land Secs., Devonshire House, Piccadilly, W 12.00
Pentlands Inds., Kingmaker House, Station Road New Barnet, Hertfordshire 12.00

Finals:
Associated Leisure
Birmingham Mint
LRC Intl.
London Pavilion
May and Hassell
Parkdale
Rooner
Russell (Alexander)
Sekers Intl.
Textured Jersey
Wheway Watson

Interims:
SGB

DIVIDEND & INTEREST PAYMENTS—
Anns. 2¾pc. 1¾pc. Do. 2½pc. 1¼pc
Antofagasta (Chili) and Bolivia Railway. 7p
Bankers Inv. Tst. Db. 4pc
Border Brews. (Wrexham). 3.8p
Bowater Con.. 7.25p
British Assets Tst 1.1p
British Home Stores, 3p
Chesterfield Props., 4.25p
Cole Grp., 2p
Commercial Props. Do., 1½pc
Consd. 2½pc 1¼pc
Cope Allman Intnl. 1p
Croydon 3½pc. 1¾pc
DRG 3p
External Inv. Tst., 4.8p
First Charlotte Assets Tst. 0.15p
Fletcher Challenge Pf., 3.20925j. Do. Pf. 7.53104p
G.R. (Hldgs.) 1.6p
Gopen Cons., 4p
Hunting Pet. Ln., £pc2.9041
J. B. Hldgs. (Now Johnston Gp.), 2p
Lee Cooper, 1.857p
Leyland Paint and Wallpaper, 0.75p
MacDonald Martin Dists., 9.5p. Do. B 4.75p
Martin The Newsagent, 4.36p
Met. Water Brd., Staines Res. Jt. Com 3pcGtd.Db. 1½pc
Midland Marts, 2.76p
North British Steel. 0.71p
North Amer. Tst. 1.4p
Nurdin and Peacock, 1.575p
Plaxtons (G.B.), 3p
Riley Leisure 1.5p
Rugby Portland Cement, 2.65p
Rush and Tompkins 2.75p
Sandhurst Marketing, 1.415p
Scott and Robertson, 0.75p
Scottish Ontario Inv., 2.15p
Smith (W. H.) 3.75p. Do. B. 0.75p
Sun Alliance and London Ins., 23.5p
Soter Elec. Ln., 4¾pc
Tarmac. 12.6p
Tel. Rentals. 5.26p
Tootal Grp., 1.25p
Transatlantic and Gen. Invs., 4p
Treasury 8¼pc 1982 4⅛pc
Vosper, 3p
Yule Catto. 1.5p. Do. 11½pcPf. 5.75pc

TOMORROW

COMPANY MEETINGS—
Aero Needles Clive Works, Redditch 3.00
Bambers Stores, Gt. Eastern Hotel, Liverpool St., EC. 12.00
Belgrave (Blackheath) Belgrave Rd., Halesowen, 12.00
Fidelity Radio, Portman Inter-Continental, 22, Portman Square, W 11.00
Gieves Grp., Browns Hotel, Dover Street W. 12.00
Warrington (Thomas) Queen Hotel City Road, Chester, 11.00
Young and Co's Brew., West Centre Hotel, Lillie Road, Fulham, SW, 12.00

BOARD MEETINGS—
Finals:
Danae Invest Tst
Equity Consort Invest Tst
Imperial Continental Gas
Intasun Leisure
Marston Thompson and Evershed
Rexmore
Toothill (R. W.)
Watson (R. Kelvin)

Interims:
Granada
Macpherson (Donald)

DIVIDEND & INTEREST PAYMENTS—
Allied Irish Banks Fltg. Rate Notes 1987 577.20.
Assctd. Sprayers, 0.5p
BBA Grp. 0.9p
Baird (Wm.) 7.35p
Barlows, 6p
British Shoe Ln. 3½pc
Celanese Mexicana 8mnth. notes. 7³⁄₃₂pc
Colman (E. A.) Irw Ln 4pc
Courtaulds 5pcPf. 1.75pc. Do. Ln. 2¼pc
Delta Gp. Ln. 3.75pc
Findhorn Fin. Ln., 4¼pc
Freemans Db., 3½pc
Grattan. 2.25p
Hanger Invs. Dbm., 3½pc
Leumi Intnl. Gtd. Fltg. Rate Notes $ $39.77
Linread Db., 3¾pc
Lloyds Eurofinance Gtd. Stlg.-Dollar Fltg. Rate Notes 1990 7³¹⁄₃₂pc
Manor Nat. Grp. Motors 10½pcPf. 5.26pc
Morgan Crucible Db., 4¼pc. Do. Lns. 2⅞ 3⅞pc
Pentland Inds., 1.98p
Pratt (F.) Eng. Cpn. Ln., 4pc
Pritchard Services 1.75p
Smith (W. H.) Db. 4pc. Do. Lns. 2⁹⁄₁₆ and 3⅞pc
Tarmac Db., 3¼pc (1987-92)
Whitbread Lns. 3¾pc. and 5¼pc

WEDNESDAY JULY 7

COMPANY MEETINGS—
Altifund, 2, St. Mary Axe, EC. 12.30
Argus Press, Stratton House Piccadilly, W. 11.00
Argus Press Holdings, Stratton House, Piccadilly, W. 11.10.
Carless Capel and Leonard, Tallow Chandlers Hill, 4 Dowgate Hill, EC. 12.00
Cluff Oil, Browns Hotel, Dover Street, W 12.00
Hawley Go. Shoppenhangers Road, Maidenhead, Berkshire. 10.00
Heath (C. E.), Queens Room, Baltic Exchange, 14-20 St Mary Axe, EC. 12.00
London and Northern Gp., Essex Hall, Essex Street WC. 3.00
London Tst. Connaught Rooms, Great Queen Street, WC. 12.00
Modern Engrs of Bristol, Dixon Road, Brislington, Bristol. 12.00
Moss (Robt.) Ironmongers Hall, EC 11.30
Oceana Devpt. Inv. Tst., 2, St. Mary Axe. 11.30
Panther Secs. 58 Mount Pleasant, W. 11.30
Prince of Wales Hotels, Prince of Wales Hotel, Lord Street, Southport. 12.00
Sindall (Wm.) Gonville Hotel Gonville Place, Cambridge, 12.15

BOARD MEETINGS—
Finals:
Hollas
Technology Invest Tst
Waddington (John)

DIVIDEND & INTEREST PAYMENTS—
Allied Leather Inds 3.75p
Bambers Stores 0.9p
Boustead 0.75p
EIS Grp 3.428p
Fidelity Radio 0.1p
House of Fraser Db 4pc
Keystone Invest 4p
South African Breweries 24 cts
South African Breweries Pfs 6.2 and 7 pc
Spring Grove 1.5p
Viking Resources Tst 0.4p
Walker (J. O.) 1p
Warrington (Thomas) 3.65p
Young and Co's Brewery 4p
Young Co's Invest Tst 4.2p

THURSDAY JULY 8

COMPANY MEETINGS—
Alpine Hldgs. Alpine House, Honeypot Lane, NW. 12.00
Bremner 44 Glassford Street Glasgow 10.30
Hay (Norman), Excelsior Hotel, Heathrow Airport, Middlesex, 11.00
Hill Samuel Gp. Plaisterers Hall, 1 London Wall, EC. 11.30
London Sumatra Plantations 1-4 Great Tower Street, EC. 11.30
Morgan Crucible, Institute of Directors, 116 Pall Mall, SW, 11.30
Parkland Textile, Parkway Hotel, Leeds, 12.30
Southend Stadium Southend Stadium Southend on Sea, Essex., 11.30
UBM Grp, Avon Works, Winterstoke Road Bristol, 12.00

BOARD MEETINGS—
Finals:
Booth (John) (Bolton)
British Building and Engineering Appliances
Ocean Wilsons

Interims:
Imperial Gp

DIVIDEND & INTEREST PAYMENTS—
Associated Paper Inds 1p
Bishops Gp 3p
British Borneo Petroleum Syndicate 8.45p
General Scottish Tst 2.1p
Glossop 3.508p
Heath (C. E.) 9.5p
Hewden-Stuart Plant 0.8p
London Trust 2.6p
Lovell (G. F.) 4p
Moss (Robert) 1.2p
Reckitt and Colman 6p
Reckitt and Colman 5pcPf 1.75pc
Sindall (Wm.) 6p
Slingsby (H. C.) 0.6p

FRIDAY JULY 9

COMPANY MEETINGS—
Buckleys Brewery, The Phoenix, Gorslas, Dyfed, 10.45
Hunting Gibson, 243 Knightsbridge, 12.30
Minster Assets, Savoy Hotel, W 12.00

BOARD MEETINGS—
Finals:
Scott (David)
Stonehill

Interims:
Sotheby Parke Bernet

DIVIDEND & INTEREST PAYMENTS—
Advance Services 2.3p
Agricultural Mortgage 13½pcBds 9/7/82 £6.9719p
Alpine Hldgs 2.975p
Altifund CapShs 0.2075p
Altifund IncShs 4.75p
Bellway 3p
Bremner 3.15p
British Syphon Inds 1p
Browning-Ferris Inds 25 cts
Buckleys Brewery 1.65p
Canal-Randolph Corpn 16 cts
Causton (Sir Joseph) 0.7836p
Chemring 2.5p
Daon Development Corpn 4 cts
Flight Refuelling 2.35p
Geers Gross 2p
Greenfields Leisure 0.26p
Kelsey Inds 2.5p
London Sumatra Plantations 6p
North Midland Construction 0.65p
Oceana Dev Inv Tst 0.65p
Panto (P.) 0.3p
Parkland Textile 2.1p
Rowntree Mackintosh 5.3p
Southend Stadium 0.47p
Southend Stadium Pfd 3.51p
Stockholders InvestTst 1.75p
Thorpac Gp 0.91p
Vaux Breweries 2.75p

SATURDAY JULY 10

DIVIDEND & INTEREST PAYMENTS—
Ireland 7½pc 1981-83 3¾pc
London County 6¾pc 1988-90 3⅜pc

SUNDAY JULY 11

DIVIDEND & INTEREST PAYMENTS—
Nationwide Building Society 16¼pc 17/1/83 8⅛pc

Barytes no longer waste as it helps prevent oilwell gush

BY PETER CARTWRIGHT

INDUSTRIAL WASTE from Roman times is the unlikely material playing an essential part in oilfield developments on and off shore.

Neither Romans nor Anglo-Saxons had use for two main waste products, fluorspar and barytes from lead mining. It was only 40 years ago that barytes were used to prevent oil wastefully gushing out during drilling. A high-density mineral mud can be made from it to hold down gas and oil at high pressure.

About 90 per cent of world production of 7m tons of barytes is now used in drilling. It is the principal constituent of drilling fluids, though the range of mixtures is extensive.

The amount of barytes may be no more than 50 per cent, but its value as a geological pressure container is unrivalled. It is extremely heavy.

Barytes has long been widely used in the chemical industry. In the 19th and early 20th centuries Shropshire was a chief source, but these workings are largely exhausted. There are deposits in Northumberland, Cumbria, Devon and Somerset. A more prolific source is the Derbyshire lead mines.

One of the major ore fields is between Castleton and Wirksworth, historic centre of lead mining. In an area about 20 miles by five, hundreds of thousands of tons of barium exist either naturally or in spoil heaps.

One big extraction project is at Brassington, near Wirksworth, where SPO Minerals is approaching its planned annual output of 50,000 tons of finished products.

The plant will separate and sell other minerals, such as lead and zinc, that go through the mill.

Laws governing lead mining are among the few to have survived independently of the main body of English law.

If a dispute arose one would not go to the county court for redress but to the Barmote Court, presided over by the Barmaster.

The Barmaster is still an important figure as the Queen's representative in her title of

Prospecting can go on almost anywhere except churchyards, gardens, highways and orchards in the "Queen's Field," regardless of the landowner's wishes, but reports of finds and of amounts of lead extracted or calculated from assays must be made to him.

The miner must pay "lot and cope" to the three principal landowners, the Dukes of Lancaster, Rutland and Devonshire. This used to be one dish of lead ore.

A copy of this document, having attached thereto the documents mentioned in Appendix 4, has been delivered to the Registrar of Companies in England for registration.

This document includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information to the public with regard to Atlantis Resources International Ltd. ("Atlantis"). The Directors of Atlantis have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly. This document has been prepared so far as possible on the basis that the acquisitions mentioned herein have been completed.

Application will be made to the Council of The Stock Exchange for the Common Shares without nominal or par value of Atlantis, issued and to be issued as mentioned herein, to be admitted to the Official List.

The Common Shares of Atlantis have not been registered under the United States Securities Act of 1933 and may not be offered or sold directly or indirectly in the United States of America (including its territories, possessions and areas subject to its jurisdiction) or to nationals, citizens or residents thereof.

ATLANTIS RESOURCES INTERNATIONAL LTD.

(Incorporated in Canada under the Companies Act of the Province of Alberta)

Placing by de Zoete & Bevan

of 3,000,000 Common Shares without nominal or par value at 45p per share

SHARE CAPITAL

Authorised		*Issued and to be issued fully paid*
25,000,000	Common Shares without nominal or par value	20,000,000

INDEBTEDNESS

At the close of business on 14th June, 1982 Atlantis and its subsidiaries following the acquisitions mentioned herein ("the Group") had outstanding a secured bank loan of $1,500,000. Save as aforesaid and apart from intra-Group liabilities, no company in the Group had outstanding on that date any mortgages, charges, debentures, loan capital (outstanding or created but unissued) or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances or acceptance credits, hire-purchase commitments, or any guarantees or other material contingent liabilities.

DIRECTORS, OFFICERS AND ADVISERS

Directors

LAWRENCE HAROLD PAYNE (Canadian) *(Chairman)*
1520-56th Avenue S.W., Calgary, Alberta T2V 4S2, Canada.

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EUGENE FREDERICK SETKA (Canadian)
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Officers

LAWRENCE HAROLD PAYNE *(President and Chief Executive Officer)*
EUGENE FREDERICK SETKA *(Vice President, Finance and Chief Financial Officer)*
LORNE DOUGLAS HOWES *(Vice-President, Exploration)*
RAYMOND VANCE MILLIGAN *(Secretary)*

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Stockbrokers
de ZOETE & BEVAN,
25 Finsbury Circus, London EC2M 7EE and The Stock Exchange.

Legal Advisers to Atlantis
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Auditors and Reporting Accountants
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Oil and Gas Consultants
BLAIN ENGINEERING ASSOCIATES (1980) LTD., *Professional Engineers*,
1101, 500-4th Avenue S.W., Calgary, Alberta T2P 2V6, Canada.

Mineral Management Consultants
SEATON-JORDAN & ASSOCIATES LTD.,
306, 239-8th Avenue S.W., Canada Trust Building, Calgary, Alberta T2P 1B9, Canada.

Registrars and Principal Transfer Office
THE CANADA TRUST COMPANY,
505-3rd Avenue S.W., Calgary, Alberta T2P 3E6, Canada.

Branch Registrars and Transfer Office
TURQUANDS BARTON MAYHEW & CO.,
La Gallais Chambers, 54 Bath Street, St. Helier, Jersey, Channel Islands.

INTRODUCTION

Atlantis was incorporated in Alberta, Canada in October, 1980 but did not commence business until June, 1982 when it entered into conditional contracts to acquire (i) all the issued shares of Atlantis Resources, a private Alberta company controlled by Mr. L. H. Payne, the President of Atlantis, which owns interests in certain oil and natural gas properties and also acts as operator for various joint ventures; (ii) all the issued shares of Atlantis Exploration, a private Alberta company owned jointly by Mr. Payne and his wife, Mrs. M. O. Payne, which owns interests in certain natural gas properties; and (iii) the Payne Assets. Following these acquisitions the business of the Group will be the development and production of and exploration for oil and natural gas in western Canada and the United States.

The acquisitions will require the issue of 16,999,997 Common Shares of Atlantis and the payment of $1,000,000 in cash. At the same time a placing of 3,000,000 Common Shares at 45p per share is being made by de Zoete & Bevan. Both the acquisitions and the placing are conditional (*inter alia*) on such Common Shares of Atlantis being admitted to the Official List by the Council of The Stock Exchange. Subject to listing being granted, it is expected that the acquisitions and the placing will be completed on 7th July, 1982 and that dealings in the Common Shares of Atlantis will commence on 8th July, 1982.

OBJECTIVES AND BUSINESS

The Directors' objective is that the Group should both develop its existing interests and acquire further interests in oil and gas properties, so as to maintain a balanced portfolio of development, production and exploration interests. The Group at present concentrates its activities on medium-risk exploration projects in Alberta, British Columbia and Saskatchewan in western Canada, and in Louisiana and Illinois in the United States. It is envisaged that further acquisitions will be made primarily in areas where previous exploration has established the presence of hydrocarbons.

The Group, as well as being engaged in managing its existing oil and gas interests and seeking to acquire further interests for its own account, intends, as a major feature of its business, to continue the policy which Atlantis Resources has successfully pursued of identifying oil and gas prospects through its own geological research and raising joint venture capital for use by it in exploring and developing those prospects. Since April, 1979 through joint ventures organised in Canada and in the United Kingdom a total of $31,031,000 has been raised for these purposes, of which at 31st May, 1982 approximately $5,700,000 remained unexpended. Atlantis Resources, as operator for the joint ventures, controls the drilling operations while the investors in the joint ventures are responsible for most of the costs of exploration and development. In return for its services and expertise Atlantis Resources earns a working interest of up to 25 per cent. of the joint venture's interest in each prospect. Atlantis Resources has thus been able to accumulate a major portion of its reserves of hydrocarbons without having had to incur significant exploration and development expenditure. These arrangements are described in more detail under "Joint Venture Management".

HISTORY OF ATLANTIS

The development of the oil and gas interests owned by the Group has been attributable principally to Mr. Payne. He has had many years' experience in the oil and gas industry during which time he has held senior positions in several independent oil corporations and been involved in the discovery and production of significant quantities of hydrocarbons in North America and elsewhere in the world.

In 1976 Mr. Payne acquired an interest in acreage located in the Pine Creek area of Alberta with productive oil reserves and additional exploration potential. In late 1978, through Atlantis Exploration, Mr. Payne participated in drilling 2 wells on acreage in the Huxley-Elnora area of Alberta, both of which encountered natural gas. In early 1979 Mr. Payne, on his own account, participated in the drilling of 4 additional wells in this area. As a result of these drilling programmes commercial reserves of natural gas were discovered.

In 1979 Mr. Payne, together with Mr. D. C. Deacon and Mr. L. D. Howes, formed Atlantis Resources with a view to exploring for and developing oil and gas in various locations in Canada and the United States to be financed mainly by funds raised from consortia of investors. For the first drilling programme a sum of $2,000,000 was raised through a Canadian joint venture. Following the success of the first drilling programme further funds have been raised for similar purposes from another 7 joint venture consortia. These are more fully described under "Joint Venture Management".

The acquisitions of Atlantis Resources, Atlantis Exploration and the Payne Assets will bring the various oil and gas interests developed by Mr. Payne within the ownership of a single company, thus creating a strong base for the future growth of the Group's existing activities.

OIL AND GAS PROPERTIES

Reserves

(a) **Summary**

The following table summarises the productive acres and net reserves after royalties, based on the estimates contained in the Blain Report, attributable to the Group as at 31st December, 1981:—

	Productive Acres *Gross*	Productive Acres *Net*	Oil *Proved* (STB)	Oil *Probable* (STB)	Gas *Proved* (MMcf)	Gas *Probable* (MMcf)	Sulphur *Proved* (Long tons)
Canada							
Alberta	24,915	2,748	118,300	46,600	8,147	3,551	1,278
British Columbia	5,540	174	24,500	—	285	434	—
Saskatchewan	280	12	8,100	5,400	—	—	—
United States							
Louisiana	840	10	11,300	—	409	39	—
Oklahoma	40	2	3,000	—	—	—	—
	31,615	2,946	165,200	52,000	8,841	4,024	1,278

(b) **Description**

The following is a description of the Group's principal holdings:—

Huxley-Elnora, Alberta

The Group owns working interests in the Huxley-Elnora area varying from 1.25 per cent. to 50 per cent. before pay-out (3.0945 per cent. to 50 per cent. after pay-out) in 16,934 gross acres (2,267 net acres). As at 31st December, 1981 15 wells were capable of producing oil and/or natural gas. Since that date 5 further wells have been drilled, of which 4 were successful. An additional well is currently being drilled and 1 further well is planned. Development wells may also be required. Proved reserves of 4,018 MMcf of natural gas and 16,000 STB of oil as well as probable reserves of 1,926 MMcf of natural gas and 14,200 STB of oil have been attributed to the Group's interests in this area.

The first natural gas production is anticipated to commence on 1st January, 1983 at an approximate rate of 6 MMcf per day and it is expected that further wells will be on-stream by 1st January, 1984, giving additional production of approximately 2 MMcf per day. One well is currently producing oil at the rate of 20 BOPD.

The Huxley-Elnora area is known to have potential for gas, oil and condensate in several geological horizons and has provided the Group with substantial reserves to date. The Group will actively seek to expand its interests in this area.

Sylvan Lake, Alberta

Atlantis Resources owns working interests in the Sylvan Lake area varying from 9.8265 per cent. to 42 per cent. before pay-out (5.71325 per cent. to 42 per cent. after pay-out) in 5,120 gross acres (434 net acres). As at 31st December, 1981 3 wells had been drilled, of which 2 are capable of producing natural gas and a third is capable of producing both oil and gas. A development well may be required to evaluate further the oil potential of the area. Proved reserves of 453 MMcf gas and 9,000 STB of oil and probable reserves of 701 MMcf of natural gas have been attributed to the Group's interests in this area. One well is currently producing oil at the rate of 35 BOPD; natural gas production is expected to commence by 1984.

Crossfield, Alberta

Atlantis Resources has working interests ranging from 3.28125 per cent. to 19.75 per cent. before pay-out (2.34375 per cent. to 18.55 per cent. after pay-out) in 1,280 gross acres (135 net acres). 2 wells have been drilled on this acreage. The first well was drilled in 1981 and has been assigned proved natural gas and sulphur reserves and probable natural gas reserves. This well is anticipated to be completed and on-stream by the Autumn of 1982. The second well has encountered proved natural gas and condensate reserves. This well is subject to a gas purchase contract and is expected to commence production in November, 1982. Proved reserves of 440 MMcf of natural gas, 5,300 STB of condensate and 1,278 long tons of sulphur as well as probable reserves of 38 MMcf of natural gas have been attributed to the Group's interests in this area. Atlantis Resources has maintained an active leasing programme in this area and anticipates drilling additional wells within the next year.

Pine Creek, Alberta

Atlantis owns working interests in the Pine Creek area varying from 2.8125 per cent. to 6.25 per cent. before pay-out (2.8125 per cent. after pay-out) in 6,240 gross acres (175 net acres). 5 wells are currently producing oil at an average rate of approximately 400 BOPD. An extensive development programme has been instituted, including the drilling of several development wells, the building of production facilities and the construction of a gas gathering system, all of which will contribute to further production from this area. Proved reserves of 31,200 STB and probable reserves of 32,400 STB of oil have been attributed to the Group's interests in this area as well as proved reserves of 52 MMcf and probable reserves of 30 MMcf of natural gas.

Medicine River, Alberta

Atlantis Resources has an 18.125 per cent. working interest before pay-out (38 per cent. after pay-out) in 320 gross acres (58 net acres). A well drilled on this acreage encountered natural gas and a study was subsequently made which indicated that the reservoir is being drained by other wells in the area. Application is being made to obtain a gas purchase contract for this well and it is expected that the well will be on-stream by mid-1983. It is estimated that the well will produce natural gas at the rate of 500 Mcf per day and condensate at the rate of 5 BOPD. Proved reserves of 399 MMcf of natural gas and 3,700 STB of condensate have been attributed to the Group's interest in this area.

DEFINITIONS

The following definitions are used throughout this document:—

"Atlantis"	Atlantis Resources International Ltd.
"Atlantis Resources"	Atlantis Resources Ltd.
"Atlantis Exploration"	Atlantis Exploration Ltd.
"the Group"	Atlantis and its subsidiaries following the acquisitions mentioned herein.
"the Payne Assets"	the oil and gas properties owned by Mr. L. H. Payne and being acquired by Atlantis as mentioned herein.
"Le Vallonet"	Le Vallonet Company Limited.
"Heller"	Heller Resources Ltd.
"Blain Engineering"	Blain Engineering Associates (1980) Ltd.
"the Blain Report"	the report by Blain Engineering set out in Appendix 1
"Seaton-Jordan"	Seaton-Jordan & Associates Ltd.
"estimated net cash flow"	the estimated future revenue stream generated by the production of the reserves attributable to the Group after deducting all applicable royalties, direct taxes, operating costs and future capital requirements.
"gross acres"	the total land area, measured in acres, in which an interest is held.
"net acres"	the area obtained by multiplying gross acres by the percentage working interest owned therein. Such interests are subject to royalties and in some cases to other non-working interests.
"pay-out"	with respect to a well that has been drilled and completed for production the point at which the revenues therefrom equal the drilling, completion, equipping and operating costs of the well.
"proved reserves" and "probable reserves"	have the same meanings as are attributed thereto in the Blain Report.
"working interest"	an interest in a property and in any oil and gas revenue obtained therefrom prior to deduction of lessor royalty and overriding and any other non-working interests held by others in that property.

References to "Dollars" and "$" are to Canadian Dollars except where otherwise stated. At the close of business on 28th June, 1982 the middle market spot exchange rate between $ Canadian and £ Sterling in the London foreign exchange market was $2.22 to £1.

Units of Measurement

Oil and Condensate Measurements

1 STB = 1 stock tank barrel of oil or condensate.
1 BOPD = 1 barrel of oil or condensate per day.
All oil and condensate volumes are expressed in standard 42 US gallon barrels (35 imperial gallons).

Gas Measurements

1 Mcf = 1 thousand cubic feet.
1 MMcf = 1 million cubic feet.
All gas volumes are expressed in cubic feet at standard temperature and pressure.

Of the Group's 58 productive wells, 20 wells are currently on-stream and a further 23 wells are expected to be on-stream by May, 1984.

The following table summarises the production attributable to the interests owned by the Group during the 5 years ended 31st December, 1981:—

	1977	1978	1979	1980	1981
Oil (STB)	1,410	1,961	2,263	3,244	6,735

Productive wells developed by the Group are placed on production as soon as practicable. Oil and natural gas produced is sold at the wellhead. Oil production in Alberta is sold to the Alberta Petroleum Marketing Commission, and elsewhere in Canada and the United States to local purchasers. Natural gas is normally sold under long-term contract, either on the basis that the purchaser takes each day a specified proportion of the estimated reserves of a particular well or that the purchaser takes an agreed volume of gas over a fixed period. Details of some of the factors currently affecting sales of the Group's oil and gas production are described under "Risk Factors and Industry Regulation".

Future Production and Estimated Net Cash Flow

A projection of the future production and the estimated undiscounted net cash flow from the Group's proved oil and gas reserves as at 31st December, 1981 is set out below:—

Year ending 31st December	Production *Oil* (STB)	Production *Gas* (MMcf)	*Oil* $'000	*Gas* $'000	*Alberta Royalty Tax Credit* $'000	*Capital Requirements* $'000	*Total* $'000
1982	11,900	57	264	137	66	(279)	188
1983	13,800	318	377	763	300	(97)	1,343
1984	13,700	374	442	1,034	371	(23)	1,824
1985	13,200	380	494	1,134	381	(24)	1,985
1986	12,000	421	538	1,468	489	(32)	2,463
1987	11,300	474	559	1,883	617	—	3,059
1988	10,600	477	571	2,112	685	—	3,368
1989	9,700	464	572	2,279	716	—	3,567
1990	8,800	457	561	2,448	752	—	3,761
1991	8,000	450	534	2,529	775	—	3,838
Thereafter	52,400	4,989	4,729	41,784	12,554	—	59,067
	165,200	8,841	9,641	57,571	17,706	(455)	84,463

Net cash flows from properties located in the United States have been converted to Canadian dollars at the rate of C$1.183 to US$1. Net cash flows are stated after deducting all applicable royalties, direct taxes, operating costs and future capital requirements. Indirect costs, such as administrative overheads, miscellaneous expenses and income taxes have not been considered. The Royalty Tax Credits expected to be earned in the Province of Alberta have been taken into account on an estimated basis. For the purpose of determining the estimated net cash flows from the Group's proved natural gas reserves it has been assumed that approvals will be granted by 31st December, 1982 with respect to applications for export at present before the National Energy Board. A summary of the bases on which the above net cash flows have been calculated is set out in the Blain Report.

JOINT VENTURE MANAGEMENT

A major feature of the business of Atlantis Resources has been its ability, through the raising of joint venture capital, to finance the exploration and development of oil and gas prospects identified by it. Atlantis Resources has to date acted as operator under 8 Joint Venture Agreements, 3 with consortia of Canadian investors and 5 with Alberta limited partnerships organised in the United Kingdom and consisting mainly of United Kingdom investors. The Canadian investors were introduced principally through F. H. Deacon, Hodgson Inc., a Toronto stockbroking firm, while the limited partnerships were arranged by Craigmount Investment Management Limited ("Craigmount"), a London investment management company. The limited partnerships are administered in 3 cases by an Alberta company, Agincourt Resources Limited ("Agincourt"), and in 2 cases by a U.K. company, Claremount Oil & Gas Limited ("Claremount"). The sole business of these companies, which are the general partners in the partnerships, is to represent the partnerships in their relationship with Atlantis. Details of the interests of the Directors and officers of Atlantis in these companies and the various joint ventures are set out in paragraph 4 (i) of Appendix 4.

Mr. L. D. Howes (aged 50) is the Vice-President, Exploration of Atlantis and has been employed by Atlantis Resources since March, 1979. He has been involved in the oil and gas industry since 1957, working primarily as an exploration geologist in western Canada. In 1969 he joined Canadian Reserve Oil & Gas Limited as a senior geologist, a position he held until 1979. He is responsible for co-ordinating the Group's exploration activities.

Mr. R. V. Milligan (aged 30) became the Secretary of Atlantis in April, 1982. He is a solicitor with Bennett Jones, Atlantis' solicitors.

In addition to the Directors and officers of Atlantis the Group has 9 employees, including 2 senior geologists, Mr. G. B. Unrau and Mr. M. P. Stanton, a senior engineer, Mr. R. Gendre, and 2 landmen, Mr. G. R. Booth and Mr. T. Male. 8 employees are based in Canada and the other in the United States.

NET ASSETS

The pro forma consolidated balance sheet of the Group as at 31st December, 1981, after taking account of the acquisitions and the placing mentioned herein, shows that the book value of the oil and gas interests of the Group, on the basis of the historical cost convention and the accounting policies adopted as stated in the Notes to the combined consolidated financial statements contained in the Accountants' Report set out in Appendix 3, amounted to $6,516,000. If the Group's proved and probable reserves as at 31st December, 1981 were valued on the basis of estimated net cash flow discounted at the rate of 15 per cent. and the Group's non-reserve properties were valued at replacement cost as at that date, the combined net assets of the Group would be as follows:—

	Atlantis $'000	Atlantis Resources $'000	Atlantis Exploration $'000	The Payne Assets $'000	Total $'000
Oil and gas interests					
At book value per pro forma consolidated balance sheet	—	3,929	196	2,391	6,516
At valuation					
Reserves proved and producing or projected to commence production before May, 1984	—	11,350	1,357	1,864	14,771
Other proved reserves	—	2,290	—	—	2,290
Probable reserves	—	4,052	414	1,435	5,901
Non-reserve properties	—	3,459	—	61	3,520
Total oil and gas properties at valuation	—	21,151	1,771	3,360	26,482
Other fixed assets and current assets less current liabilities, deferred income taxes and minority interests	—	(2,011)	(40)	—	(2,051)
	—	19,140	1,931	3,360	24,431
Net proceeds of the placing after expenses and cash payments for the Payne Assets (based on an exchange rate of $2.22 to £1)	1,440	—	—	—	1,440
Adjusted net assets at valuation	1,440	19,140	1,931	3,360	25,871

The numbers of Common Shares of Atlantis to be issued in connection with the transactions mentioned herein are as follows:—

	No. of Shares
In issue at 31st December, 1981	3
Consideration for the acquisition of Atlantis Resources	13,895,000
Consideration for the acquisition of Atlantis Exploration	1,714,000
Part consideration for the acquisition of the Payne Assets	1,390,997
Issued for cash by way of placing	3,000,000
	20,000,000

On completion of the acquisitions and the placing mentioned herein, 20,000,000 Common Shares of Atlantis will be in issue and Atlantis will have adjusted net assets at valuation of $25,871,000 equivalent to $1.29 (approximately 58p) per share. The adjusted net assets at valuation set out above do not include values for working interests earned and to be earned as a result of expenditure of the $10,030,000 joint venture capital, which was unexpended at 31st December, 1981 or the $2,605,000 joint venture capital raised in May, 1982.

WORKING CAPITAL AND CASH FLOW PROJECTION

Atlantis is raising approximately £1,100,000 after expenses by means of a placing of 3,000,000 Common Shares at 45p per share. Of the net proceeds approximately £450,000 will be used to satisfy the cash consideration payable to Mr. Payne in respect of the acquisition of the Payne Assets; the balance will be available as working capital, primarily for use in the Group's exploration and development programmes. The Directors are satisfied that, taking into account the bank facilities available and the net proceeds of the placing, the Group will have sufficient working capital for its present requirements.

The summary below illustrates the cash flow, which is projected to be generated during the 3 years ending 31st December, 1984. The summary makes the following principal assumptions:—

(a) Sales of oil and gas will be on the basis of the production profile from proved reserves set out in paragraph 5 of the Blain Report. No revenue will be received from any new oil or gas discovered.
(b) The present rates of royalties and direct taxes will remain unchanged throughout the period.
(c) Atlantis will continue to raise joint venture capital to finance the exploration and development of new prospects, out of which it will in certain cases receive management fees.
(d) The cash resources of Le Vallonet will be available for Group purposes.
(e) The rate of exchange between Canadian Dollars and United States Dollars will throughout the period be C$1.183 to US$1.
(f) No dividends will be paid by Atlantis during the period.
(g) Interest on the current bank loan will be at the rate of 20 per cent. per annum; the bank loan will not be repaid before 31st December, 1984.
(h) Interest will be received on cash surpluses at the rate of 15 per cent. per annum.
(i) Atlantis' current staff level will remain unchanged with normal salary increases.

	1982 $'000	1983 $'000	1984 $'000
Cash receipts			
Oil and gas revenue	558	1,664	2,171
Management fees	600	600	600
Prospect fees (Note)	205	—	—
Interest and other income	217	217	217
Alberta Royalty Tax Credit	5	86	302
Government Grants under the Petroleum Incentive Programme	278	350	200
Costs recovered from joint ventures	636	—	—
Cash and short-term deposits, on the assumption that the transactions mentioned herein have been completed	1,789	—	—
	4,288	2,917	3,490
Cash disbursements			
Production expenses	69	281	319
General and administrative expenses	655	720	800

subsidiaries ("the Group") following the completion of the acquisitions mentioned in the Prospectus relating to Atlantis dated 1st July, 1982. The reserves attributable to the interests are based on a detailed study of the relevant properties; however, no field examinations have been made nor have independent well tests been conducted. Atlantis Resources Ltd., Atlantis Exploration Ltd. and Mr. L. H. Payne and the various local government entities that monitor and control oil and gas production have given us access to all the accounts, records, geological and engineering data and reports, such as seismic information, well test results, core analyses and electrical logs, and other data as we required for our investigation. All factual data with respect to the drilling and testing of wells, interests owned, royalties payable and contractual commitments for the wells evaluated, obtained from the files of Atlantis Resources Ltd., Atlantis Exploration Ltd. and Mr. Payne, have been accepted as represented without [illegible]ation by this firm.

Al[illegible]h this firm occupies office premises in the same building as John Blain Engineering Ltd., the independent Petroleu[illegible]gineers to certain partnerships with which Atlantis Resources Ltd. has entered into Joint Venture Agreements and certain clients are common to both firms, this firm is independent as to ownership, management and personnel of John Blain Engineering Ltd.

2. Classification of Reserves

In this evaluation the expression "reserves" is restricted to those quantities of hydrocarbons which are reasonably expected to be recovered under current pricing and operating cost conditions and existing regulatory practices and with existing conventional equipment and operating methods. The following reserve classifications have been used:—

"Proved reserves" are the economically recoverable quantities of crude oil or gas which will be recovered from the Group's acreage. The existence of these reserves is based on engineering and geological data. The producibility of the reserves has been demonstrated either by flow tests, periods of production or analogy with other producing wells of like characteristics.

"Probable reserves" are additional reserves which are estimated to be recoverable either through additional drilling or increased recovery above that considered proved. Probable reserves may also be the reserves contained in existing wells whose producibility has not been definitely confirmed. The estimates of probable reserves are based on a realistic interpretation of geological and engineering data available.

The reserves included in this report are estimates only and should not be construed as being exact quantities. Estimates of proved and probable reserves may increase or decrease as a result of future operations. No estimates have been made for possible reserves.

3. Geology

In order to calculate the reserves of individual wells consideration has been given to the Group's acreage position and certain reservoir parameters of each productive horizon, including (*inter alia*) net pay, porosity, water saturation, pressure, temperature, shrinkage, compressibility and the recovery factor, all of which are standard geological and engineering parameters in the oil and gas industry.

4. Estimates of Proved and Probable Reserves

(a) The following table shows the net proved reserves and the estimated net cash flow from wells which are currently producing or are projected to commence production before May, 1984:—

	No. of Wells	Producing Wells — Net Reserves after Royalties: Oil (STB)	Gas (MMcf)	Estimated Net Cash Flow: Undiscounted $'000	Discounted at 15 per cent. $'000
ALBERTA					
*Crossfield	2	5,300	440	2,158	720
Garrington	1	7,800	—	509	161
Huxley-Elnora	13	16,000	4,018	28,275	5,147
Medicine River	1	3,700	389	2,849	544
New Norway	1	5,300	—	154	68
Pipestone	1	—	249	1,723	300
Pine Creek	5	31,200	52	1,510	521
Sylvan Lake	2	8,000	453	3,654	780
Taber	2	7,500	—	272	90
Willesden Green	1	10,500	—	818	251
Windfall	1	9,400	27	604	162
Wolf Creek	1	—	873	6,834	1,108
Zama	1	12,800	—	881	277
Alberta Royalty Tax Credit				13,870	2,862
BRITISH COLUMBIA					
Eagle	2	18,800	—	788	220
Inga	1	5,900	—	182	78
Oak	1	1,800	—	52	23
SASKATCHEWAN					
Cantuar	1	4,500	—	132	58
Leon Lake	1	3,200	—	106	34
LOUISIANA					
Eugene Island	2	8,100	197	2,457	612
Little Pecan	1	3,200	212	1,642	614
OKLAHOMA					
Logan County	2	3,000	—	121	61
TOTAL	43	165,200	7,020	67,795	14,771

*In addition, 1,278 long tons of sulphur reserves are estimated to be attributable to Crossfield, Alberta. The estimated net cash flow attributable to these reserves has been included in the above figures.

(b) The following table shows the net proved reserves and the estimated net cash flow from wells which due to unavailability of gas purchase contracts are not anticipated to commence production before May, 1984:—

	No. of Wells	Non-Producing Wells — Net Reserves after Royalties: Gas (MMcf)	Estimated Net Cash Flow: Undiscounted $'000	Discounted at 15 per cent. $'000
ALBERTA	2	1,483	11,465	1,542
Alberta Royalty Tax Credit			3,836	538
BRITISH COLUMBIA	3	338	1,367	210
	5	1,821	16,668	2,290

(c) The following table shows the net probable reserves and the estimated net cash flow therefrom:—

	No. of Wells	Net Reserves after Royalties: Oil (STB)	Gas (MMcf)	Estimated Net Cash Flow: Undiscounted $'000	Discounted at 15 per cent. $'000
ALBERTA					
Chip Lake	1	—	29	225	20
Crossfield	1 (1)	—	38	258	35
Cygnet	1	—	35	156	34
Enchant	1 (1)	—	68	570	70
Huxley-Elnora	5 (3)	14,200	1,926	13,460	1,982
Pipestone	1 (1)	—	30	168	38
Pine Creek	5 (1)	32,400	30	2,010	397
Sylvan Lake	3 (2)	—	701	5,165	753
Willesden Green	1 (1)	—	40	278	41
Wolf Creek	1 (1)	—	561	3,871	614
Zama	1 (1)	—	93	718	96
Alberta Royalty Tax Credit				8,060	1,371
BRITISH COLUMBIA					
Eagle	1 (1)	—	43	169	27
Holman	1	—	142	672	95
Tenaka	1 (1)	—	249	1,075	168
SASKATCHEWAN					
Cantuar	1 (1)	5,400	—	227	99
LOUISIANA					
Eugene Island	1 (1)	—	39	481	80
TOTAL	26 (16)	52,000	4,024	37,441	5,500

The number of wells shown in brackets indicates wells to which proved as well as probable reserves have been attributed and which have therefore also been included in the number of wells shown in the tables of proved reserves.

Notes:—

(i) Condensate volumes have been included in oil volumes, which are presented in standard 42 US gallon stock tank barrels. Gas volumes are expressed in standard cubic feet (14.65 psia and 60°F).

(ii) Estimated net cash flow values are presented in Canadian dollars, properties located in the United States being converted to Canadian dollars at the rate of C$1.183 to US$1 (the rate ruling at 31st December, 1981).

(iii) Estimated net cash flow values are stated after deducting all applicable royalties, direct taxes, operating costs and future capital requirements. Energy pricing and taxation guidelines as outlined in the Canadian Federal Budget dated 28th October, 1980 and in the Energy Pricing and Taxation Agreements dated 1st and 24th September and 26th October, 1981 between the Government of Canada and the Provinces of Alberta, British Columbia and Saskatchewan have been recognised in the evaluation. Windfall Profits Tax has been deducted from production revenues attributable to United States properties. *Indirect costs, such as administrative overheads, miscellaneous expenses and income tax have not been considered.* The Royalty Tax Credits earned in Alberta have been taken into account on an estimated basis. On 13th April, 1982 the Province of Alberta announced changes in the Provincial royalties with effect from 1st April, 1982 and to the Royalty Tax Credits with effect from 1st September, 1981. These recent changes have not been recognised in the cash flow values set out above.

(iv) The following oil and gas price forecasts have been used in compiling the above estimates of net cash flow from proved and probable reserves:—

OIL

	NEP Oil $/STB	Canada Old Oil $/STB	New Oil (NORP) $/STB	United States Crude Oil US$/STB
1982	20.25	24.60	44.20	36.00
1983	22.25	31.75	50.50	40.00
1984	26.10	39.75	57.80	44.00
1985	30.60	47.75	66.00	50.00
1986	37.00	55.75	75.50	56.00
1987	44.00	60.40	80.50	62.00
1988	51.00	64.15	85.50	68.00
1989	58.00	67.90	90.50	74.00
1990	65.00	71.65	95.50	80.00
Thereafter		5 per cent. increase each year		

GAS

	Alberta Gas $/Mcf	British Columbia New Gas $/Mcf	United States Natural Gas US$/Mcf
1982	3.10	1.95	2.90
1983	3.60	2.20	3.30
1984	4.10	2.45	3.70
1985	4.60	2.75	4.10
1986	5.10	3.05	4.75
1987	5.75	3.35	5.40
1988	6.40	3.65	6.05
1989	7.05	3.95	6.70
1990	7.70	4.25	7.35
Thereafter		5 per cent. increase each year	

(v) Operating costs are based on actual costs or have been estimated by comparison with actual costs from similar properties. Capital costs required to complete, equip and tie-in wells have been included and have been adjusted where applicable to reflect the terms of agreements entered into by the Group for the sharing of such costs. Future operating costs and future capital expenditures have been escalated at annual rates of 10 per cent. for the first 3 years, 7 per cent. for the next 5 years and 5 per cent. thereafter.

5. Production

The estimates of yearly production from the Group's proved and probable reserves are set out below:—

Year ending 31st December	PROVED Oil (STB)	Gas (MMcf)	Sulphur (Long tons)	PROBABLE Oil (STB)	Gas (MMcf)
1982	11,900	57	16	1,400	—
1983	13,600	318	64	3,400	1
1984	13,700	374	64	4,800	85
1985	13,200	380	64	4,500	120
1986	12,000	421	64	4,200	210
1987	11,300	474	64	3,800	197
1988	10,600	477	64	3,400	204
1989	9,700	464	64	3,100	199
1990	8,800	457	64	2,800	206
1991	8,000	450	64	2,500	205
Thereafter	52,400	4,969	686	18,100	2,597
	165,200	8,841	1,278	52,000	4,024

We have used our best engineering judgment in estimating dates of on-production, production rates and product prices in evaluating the properties in this report. Our estimates are, as appropriate, based on the production history of the properties and/or by analogy with other producing properties of like characteristics. It should be recognised, however, that uncertainties in the oil and gas industry, both domestic and foreign, may result in actual dates of on-production, production rates and product prices being different from those used in this report. In view of the Canadian gas marketing conditions and the large proportion of reserves included in wells which are not on production or have not yet been completed and production tested, historical data with regard to the performance of certain wells is not available and this evaluation must be considered as a preliminary appraisal only of these wells. It should also be noted that, while some of the probable reserve wells were scheduled to commence production soon after the proved reserves in certain wells, the start year may be deferred for many years until depletion of the proved reserves in other zones in the same well.

6. Material Changes

We are not aware of any circumstances which have arisen since 31st December, 1981 which would require us to make a material adverse change to any of the above figures.

Yours very truly,
BLAIN ENGINEERING ASSOCIATES (1980) LTD.,
Professional Engineers.

APPENDIX 2

MINERAL MANAGEMENT CONSULTANTS' REPORT

The following is a copy of a Report by Seaton-Jordan & Associates Ltd., Mineral Management Consultants:—

306, 239 – 8th Avenue S.W.,
Canada Trust Building,
Calgary, Alberta T2P 1B9.
1st July, 1982.

The Directors,
Atlantis Resources International Ltd.

Gentlemen,

1. Introduction

Pursuant to your request we have evaluated as at 31st December, 1981 the non-reserve oil and gas properties attributable to the interests to be owned by Atlantis Resources International Ltd. ("Atlantis") and its subsidiaries ("the Group") following completion of the transactions described in the Prospectus relating to Atlantis dated 1st July, 1982. Our evaluation represents our opinion, as independent mineral management consultants, of the replacement cost of the interests at 31st December, 1981.

2. Basis of Valuation

Replacement cost is the price which we, as independent consultants, would recommend that a client bid at a Crown land sale. In order to determine the replacement cost, we analysed the most current prices paid at land sales for properties in the immediate vicinity of each property. In areas where current prices were not available in the immediate vicinity, we used our best judgment.

3. Valuation Summary

The following table comprises an assessment of the replacement cost as at 31st December, 1981 of the non-reserve oil and gas properties attributable to the interests owned by the Group:—

	Gross Acres	Net Acres	Replacement Cost $
Alberta	60,515	10,090	1,564,000
British Columbia	46,576	6,965	1,332,000
Saskatchewan	804	96	6,000
United States	33,677	20,569	618,000
	141,572	37,720	$3,520,000

Yours very truly,
SEATON-JORDAN & ASSOCIATES LTD.,
Mineral Management Consultants.

APPENDIX 3

ACCOUNTANTS' REPORT

The following is a copy of a Report by Thorne Riddell, Chartered Accountants, the auditors to Atlantis:—

1200 Bow Valley Square 2,
205-5th Avenue S.W.,
Calgary, Alberta T2P 2W4.
1st July, 1982.

The Directors,
Atlantis Resources International Ltd.

Gentlemen,

1. We have acted as auditors to Atlantis Resources International Ltd. ("Atlantis") and its Canadian subsidiaries since their incorporation.

2. Atlantis has entered into contracts to acquire the whole of the issued share capitals of Atlantis Resources Ltd. ("Atlantis Resources") and Atlantis Exploration Ltd. ("Atlantis Exploration") in exchange for Common Shares of Atlantis conditional (*inter alia*) on the Council of The Stock Exchange admitting such shares to the Official List. The resulting business combinations are accounted for as a pooling of interests. Accordingly, the assets, liabilities and equity accounts of each company will be recorded at the book values to each of the combining companies and the results of operations of each company will be reflected on a combined basis in the consolidated statements of earnings and retained earnings and changes in financial position as if the business combinations had taken place at the respective dates of incorporation of Atlantis Resources and Atlantis Exploration.

3. The financial statements set out below combine the financial statements of Atlantis, Atlantis Resources and Atlantis Exploration and the pro forma consolidated balance sheet incorporates the effects of the following transactions as if they had taken place on 31st December, 1981:—

(a) the issue by Atlantis Resources of 55,000 Common Shares on the exercise of employee stock options for an aggregate consideration of $300,000 cash;

(b) the acquisition by Atlantis of the oil and natural gas properties owned by Mr. L. H. Payne for an aggregate consideration of $2,390,997 to be satisfied as to $1,000,000 in cash and as to $1,390,997 by the issue of 1,390,997 Common Shares of Atlantis at an ascribed value of $1 per share; the acquisition is conditional on the Council of The Stock Exchange admitting the shares to the Official List;

(c) the issue by Atlantis of 3,000,000 Common Shares at a price of 45p per share pursuant to a proposed placing of such shares; the placing is conditional on the Council of The Stock Exchange admitting the shares to the Official List; and

(d) the payment of expenses of $560,000 estimated to be incurred in completing the transactions referred to in paragraphs 2 and 3 of this report.

4. Atlantis Resources acquired a 58.7 per cent. interest in a Jersey registered company, Le Vallonet Company Limited ("Le Vallonet"), between November, 1980 and May, 1981 at a total cost of $1,572,754. The excess of the cost of this interest over the book value of the acquired net assets at the dates of acquisition of $628,844 has been assigned to oil and natural gas properties.

5. We have examined the pro forma consolidated balance sheet and the combined consolidated statements of earnings and retained earnings and changes in financial position set out in paragraphs 9 to 12 which have been prepared under the historical cost convention. They are based on the audited financial statements of Atlantis and its subsidiaries ("the Group"). Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

6. In our opinion the pro forma consolidated balance sheet presents fairly the financial position of the Group as at 31st December, 1981 and the combined consolidated statements of earnings and retained earnings and changes in financial position present fairly the results of its operations and changes in financial position for each of the five years ended on that date, all as set out in paragraphs 9 to 12 below, in accordance with generally accepted accounting principles in Canada and with international accounting standards consistently applied after giving effect in the pro forma consolidated balance sheet to the transactions referred to in paragraph 3 of this report.

7. No company in the Group has prepared any audited financial statements subsequent to 31st December, 1981.

8. References in this report to Dollars and $ are to Canadian Dollars.

9. Pro forma Consolidated Balance Sheet

The following balance sheet combines the balance sheets of Atlantis, Atlantis Resources and Atlantis Exploration at 31st December, 1981 and incorporates the transactions described in paragraph 3 of this report:—

	Notes	Group $
Assets		
CURRENT ASSETS		
Cash and short-term deposits		3,089,451
Marketable securities, at market value		383,875
Accounts receivable		3,523,982
Share subscriptions receivable		130,000
		7,147,308
FIXED ASSETS	(ii)	6,651,951
		$13,799,259
Liabilities		
CURRENT LIABILITIES		
Bank indebtedness		581,016
Bank loan	(iii)	1,500,000
Accounts payable and accrued liabilities		4,727,723
Income taxes payable		49,975
		6,858,714
DEFERRED INCOME TAXES		53,008
MINORITY INTERESTS		982,956
		7,894,678
Shareholders' Equity		
CAPITAL STOCK	(iv)	5,830,299
RETAINED EARNINGS		74,282
		5,904,581
		$13,799,259

10. Combined Consolidated Statements of Earnings and Retained Earnings

The earnings and retained earnings of the Group for the five years ended 31st December, 1981 were as follows:—

	Notes	1981 $	1980 $	1979 $	1978 $	1977 $
REVENUE						
Oil and gas		44,104	541	378	—	—
Management and consulting fees		412,935	365,760	200,000	2,500	75,000
Interest		213,259	24,353	6,935	—	—
Other		16,620	—	—	—	2,015
		686,918	390,654	207,313	2,500	77,015
EXPENSES						
Production		17,162	180	—	—	—
Depletion and depreciation		26,550	19,549	12,509	6,368	3,500
General and administrative	(v)	519,523	221,880	201,085	3,661	1,200
Interest		209,073	4,061	4,409	740	14,405
Loss on translation of foreign currencies		55,494	—	—	—	—
		827,792	245,670	218,003	10,769	19,105
EARNINGS/(LOSS) BEFORE EXCEPTIONAL ITEMS, INCOME TAXES AND MINORITY INTERESTS		(140,874)	144,984	(10,690)	(8,269)	57,910
Gain/(loss) on sale of marketable securities		(81,170)	—	71,906	303,524	2,693
EARNINGS/(LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS		(222,044)	144,984	61,216	295,255	60,603
INCOME TAXES						
Current/(recovery)		13,780	10,318	(14,092)	15,611	13,139
Deferred		—	15,400	15,757	21,851	—
		13,780	25,718	1,665	37,462	13,139
EARNINGS/(LOSS) BEFORE MINORITY INTERESTS		(235,824)	119,266	59,551	257,793	47,464
Minority interests		19,802	—	—	—	—
NET EARNINGS/(LOSS)		(216,022)	119,266	59,551	257,793	47,464
RETAINED EARNINGS AT BEGINNING OF YEAR		290,304	171,038	111,487	45,448	(2,016)
		74,282	290,304	171,038	303,241	45,448
Dividend	(vi)	—	—	—	191,754	—
RETAINED EARNINGS AT END OF YEAR		$74,282	$290,304	$171,038	$111,487	$45,448

11. Combined Consolidated Statements of Changes in Financial Position

The changes in financial position of the Group for the five years ended 31st December, 1981 were as follows:—

	1981 $	1980 $	1979 $	1978 $	1977 $
WORKING CAPITAL DERIVED FROM					
Operations	—	163,300	83,312	285,012	80,964
Issue of shares	130,003	1,459,997	215,100	—	—
Increase in working capital on acquisition of shares of Le Vallonet	1,871,313	—	—	—	—
Proceeds from sale of fixed assets	—	20,875	17,000	—	2,006
	2,001,316	1,644,172	315,412	285,012	82,970
WORKING CAPITAL APPLIED TO					
Operations	210,274	—	—	—	—
Fixed assets	2,111,826	1,208,222	318,395	97,568	36,475
Dividend	—	—	—	191,754	—
Purchase of shares of Le Vallonet	1,465,363	107,391	—	—	—
	3,787,463	1,315,613	318,395	289,322	36,475
INCREASE/(DECREASE) IN WORKING CAPITAL	(1,786,147)	328,559	(2,983)	(3,310)	16,495
WORKING CAPITAL/(DEFICIENCY) AT BEGINNING OF YEAR	334,741	6,182	9,165	12,475	(4,020)
WORKING CAPITAL/(DEFICIENCY) AT END OF YEAR	$(1,451,406)	$334,741	$6,182	$9,165	$12,475

12. Notes to the Combined Consolidated Financial Statements

(i) Accounting policies

(a) *Basis of presentation*

The combined consolidated financial statements include the following:—

(i) the balance sheet of Atlantis as at 31st December, 1981;

(ii) the consolidated balance sheet of Atlantis Resources as at 31st December, 1981 and the consolidated statements of earnings and retained earnings/(deficit) and changes in financial position for the period from incorporation on 3rd April, 1979 to 31st December, 1979 and for the years ended 31st December, 1980 and 31st December, 1981; and

(iii) the balance sheet of Atlantis Exploration as at 31st December, 1981 and the statements of earnings and retained earnings and changes in financial position for each of the five years ended on that date.

The consolidated financial statements of Atlantis Resources include the accounts of its wholly-owned subsidiary, Atlantis Holdings Inc., from the date of incorporation and the accounts of its 58.7 per cent. owned subsidiary, Le Vallonet, from 30th April, 1981, the effective date of acquisition. The excess of the cost of the shares of Le Vallonet over the book value of its net assets at the dates of acquisition has been assigned to oil and natural gas properties and is subject to the accounting policies set out below.

(b) *Marketable securities*

Marketable securities are recorded at the lower of cost and market value.

(c) *Oil and natural gas properties*

The Group follows the full cost method of accounting under which all costs relating to the exploration for and the development of oil and natural gas properties are capitalised on a country by country basis. Such costs include land acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells and overhead charges related to exploration activities.

The costs relating to a cost centre from which there is production are depleted using the unit of production method based upon estimated recoverable reserves of oil and gas as determined by the Group. Costs in non-producing cost centres will be depleted when the area becomes productive or will be written off to earnings if exploration activity in that country is determined to be unsuccessful.

Substantially all the Group's exploration and production activities are conducted jointly with others and accordingly these financial statements reflect only the Group's proportionate interest in such activities.

(d) *Foreign currency translation*

The Group translates amounts of foreign currencies into Canadian dollars on the following basis: current assets and current liabilities at rates of exchange prevailing at the balance sheet date; other assets and liabilities at rates of exchange at the date the original transactions took place; and revenues and expenses (other than depreciation) at average rates of exchange during the year.

(e) *Depreciation*

Depreciation of fixed assets other than oil and natural gas properties is provided using the following methods and rates:—

Furniture and fixtures	20 per cent. per annum using the declining balance method.
Leasehold improvements	over 10 years on a straight line basis.

(f) *Deferred taxes*

The Group follows the tax allocation method of accounting under which the income tax provision is based on the reported earnings. Under this method, the Group makes full provision for income taxes deferred as a result of claiming capital cost allowances and writing off exploration and development expenditures for tax purposes in excess of the related amounts recorded for depreciation and depletion in the accounts.

(ii) Fixed assets

	Cost $	Accumulated depreciation $	Net $
Oil and natural gas leases and rights, including exploration, development and equipment thereon	6,521,694	5,989	6,515,705
Furniture, fixtures and leasehold improvements	181,197	44,951	136,246
	$6,702,891	$50,940	$6,651,951

(iii) Bank loan

The bank loan is repayable on demand, bears interest at the bank prime rate plus 1 per cent. and is secured by the shares of Le Vallonet.

(iv) Capital stock

(a) *Authorised*

The authorised capital consisted at 31st December, 1981 of 100,000 Common Shares without nominal or par value. On 2nd April, 1982 the authorised capital was increased to 25,000,000 Common Shares without nominal or par value.

(b) *Issued*

	No. of shares	Consideration $
At 31st December, 1981	3	3
As adjusted:		
In business combination with:		
Atlantis Resources	13,895,000	1,999,297
Atlantis Exploration	1,714,000	2
For oil and natural gas properties	1,390,997	1,390,997
For cash pursuant to the placing	3,000,000	3,000,000
	20,000,000	6,390,299
Deduct: Estimated costs in respect of the above transactions		560,000
		$5,830,299

(c) *Common Shares reserved*

Subsequent to 31st December, 1981 Atlantis reserved 750,000 Common Shares for issue pursuant to an employee Stock Option Plan. On 11th June, 1982 options were granted to 7 employees to subscribe for an aggregate of 450,000 shares at $1 per share. The options are exercisable over a period of 5 years.

(v) General and administrative expenses

General and administrative expenses include:—

	1981 $	1980 $	1979 $	1978 $	1977 $
Directors' remuneration	188,879	163,666	41,668	—	—
Auditors' remuneration	17,000	13,850	7,400	—	—

(vi) Dividend

The only dividend paid during the period under review was paid by Atlantis Exploration in respect of the year ended 31st December, 1978 and amounted to $191,754.

(vii) Contingent liabilities

(a) At 31st December, 1981 Atlantis Exploration was contingently liable as guarantor of bank indebtedness of Mr. L. H. Payne to a maximum of $1,000,000. This guarantee was released on 3rd May, 1982.

(b) Under the terms of the Agreement known as Joint Venture 3 if on completion of the programme an independent evaluation of the Joint Venture's assets establishes a value for participants' interests of less than 50 per cent. of the total amount contributed by participants to the Joint Venture, participants will be entitled to convert their interests into Common Shares of Atlantis Resources. The Directors do not consider that such entitlement will arise in favour of participants.

13. Oil and Natural Gas properties acquired from Mr. L. H. Payne

The following table summarises the results attributable to the oil and natural gas properties to be acquired from Mr. L. H. Payne:—

	1981 $	1980 $	1979 $	1978 $	1977 $
Gross revenues	61,373	48,397	36,258	23,225	13,880
Royalties	(21,544)	(19,280)	(16,277)	(4,369)	—
	39,829	29,117	19,981	18,856	13,880
Production expenses	(8,393)	(3,464)	(1,565)	(1,299)	(765)
	$31,436	$25,653	$18,416	$17,557	$13,115

Very truly yours,
THORNE RIDDELL,
Chartered Accountants.

ATLANTIS RESOURCES CONTINUED

APPENDIX 4

STATUTORY AND GENERAL INFORMATION

1. Atlantis

(a) Atlantis was incorporated under the laws of Alberta, Canada as a private company on 15th October, 1980 under the name of 230236 Alberta Ltd. and on 2nd April, 1982 changed its name to its present name.

(b) (i) Atlantis was incorporated with an authorised share capital of 100,000 Common Shares without nominal or par value, of which 3 Common Shares were issued on 30th September, 1981 for $3 cash.

(ii) On 2nd April, 1982 the authorised share capital was increased to 25,000,000 Common Shares without nominal or par value and Atlantis was converted into a public company.

(iii) On 7th July, 1982, conditionally (*inter alia*) on the Council of The Stock Exchange granting a listing for the Common Shares, issued and to be issued as mentioned herein other than for Le Vallonet, it is anticipated that Atlantis will:—

(a) issue credited as fully paid 1,390,997 Common Shares as part consideration for the acquisition of the Payne Assets;

(b) issue credited as fully paid 1,714,000 Common Shares as consideration for the acquisition of the issued share capital of Atlantis Exploration;

(c) issue credited as fully paid 13,895,000 Common Shares as consideration for the acquisition of the issued share capital of Atlantis Resources; and

(d) issue fully paid 3,000,000 Common Shares for a cash subscription price of 45p per share, representing an aggregate subscription of £1,350,000.

(c) Save as aforesaid, there have been no alterations in the share capital of Atlantis since its incorporation.

2. Principal Subsidiaries

(a) Atlantis has the following principal subsidiaries, all of which unless otherwise stated are private companies:—

Name	Country and date of incorporation	Paid-up share capital	Percentage of equity owned by the Group	Business
Atlantis Resources Ltd.	Alberta, Canada 3rd April, 1979	$1,999,297	100	Oil and gas
Atlantis Exploration Ltd.	Alberta, Canada 9th August, 1972	$2	100	Oil and gas
Atlantis Holdings Inc.	Delaware, USA 28th July, 1980	US$1,000	100	Oil and gas
Le Vallonet Company Limited	Jersey (Public) 6th July, 1963	£561,800	58.7	Investment
Extract Wool Holdings - Public Limited Company	England (Public) 16th July, 1900	£496,000	58.7	Dormant
Heller Resources Ltd.	Alberta, Canada 19th March, 1980	$10	52.8	Oil and gas

(b) (i) On 5th August, 1980 and 24th February, 1981 Atlantis Holdings Inc. issued respectively 10 and 990 Common Shares of no par value to Atlantis Resources for US$10 and US$990 in cash.

(ii) On 15th September, 1981 Atlantis Resources issued 28,000 Common Shares without nominal or par value to certain of its employees for a total cash subscription price of $130,000.

(iii) On 21st May, 1982 Atlantis Resources issued 55,000 Common Shares without nominal or par value to certain of its employees for a total cash subscription price of $300,000.

3. Issue Arrangements

Under Material Contract No. (6) below, conditionally (*inter alia*) on the Council of The Stock Exchange granting a listing for the Common Shares of Atlantis, issued and to be issued as mentioned herein other than for Le Vallonet, de Zoete & Bevan have agreed to use their reasonable endeavours to procure subscribers for a total of 3,000,000 Common Shares of Atlantis at a price of 45p per share. The Agreement is expected to become unconditional and to be completed on 7th July, 1982.

Under this Contract de Zoete & Bevan will receive a fee of £75,000. Atlantis will pay all other expenses of or incidental to the application for a listing for its issued share capital and the transactions associated therewith. The total expenses payable by Atlantis are estimated to amount to £250,000.

The minimum amount which, in the opinion of the Directors, is required to be raised by the proposed issue of 3,000,000 Common Shares of Atlantis for the matters specified in paragraph 4 of Part I of the Fourth Schedule to the Companies Act, 1948 is £1,350,000 made up as follows: (i) purchase price of property: £450,000; (ii) preliminary expenses and commission: £75,000; (iii) repayment of moneys borrowed for the foregoing: nil; and (iv) working capital: £825,000.

The price of the shares as shown in The Stock Exchange Daily Official List will be expressed in Sterling. Dealings will be for normal account settlement. A branch share register and transfer office has been established in Jersey and share transfers may be effected on normal United Kingdom stock transfer forms.

Because of the establishment of a branch register in Jersey the consent of the Finance and Economics Committee of the States of Jersey under the Control of Borrowing (Jersey) Order 1958 has been obtained to the issue mentioned herein. It must be distinctly understood that in giving this consent the Finance and Economics Committee does not take any responsibility for the financial soundness of the issue or for the correctness of any of the statements made or opinions expressed with regard to it.

4. Disclosure of Interests

(a) Immediately following the transactions described in this document (but before the sale described in paragraph 4(b)) the holdings of the Directors and officers of Atlantis and their immediate families will be as follows, all beneficial:—

	Common Shares	Percentage
L. H. Payne	10,243,768	51.22
R. Dyk	—	—
D. C. Deacon	1,734,990	8.68
E. F. Setka	730,323	3.65
J. F. Curran	—	—
L. D. Howes	860,140	4.30
R. V. Milligan	—	—

(b) Mr. D. C. Deacon intends to sell to two purchasers a total of 1,000,000 Common Shares of Atlantis at a price of not less than $1 per share as soon as practicable after completion of the transactions described herein.

(c) Save as aforesaid, the Directors are not aware of any other shareholdings which will represent 5 per cent. or more of the issued share capital of Atlantis following the transactions described in this document.

(d) Neither Blain Engineering nor Seaton-Jordan has any interest in the share capital of Atlantis.

(e) Following the transactions described in this document, 5,000,000 Common Shares of Atlantis would remain unissued. Except in relation to the Stock Option Plan described in paragraph 7 of this Appendix and the proposed offer for the outstanding shares of Le Vallonet, there is no present intention to issue any of the authorised but unissued share capital of Atlantis and without the prior approval of the shareholders in General Meeting (a) no issue of Common Shares will be made which would *effectively alter the control of Atlantis and (b) no material issue of Common Shares (other than to holders of Common Shares pro rata* to their existing holdings) will be made within one year from the date of this document.

(f) Save for the interests of Messrs. Payne, Deacon, Setka and Howes in the acquisitions mentioned herein and as disclosed in paragraphs 4 (i) and (j), no Director or officer of Atlantis, nor Blain Engineering, nor Seaton-Jordan has or has had since 1st July, 1980 any direct or indirect interest in any assets acquired, disposed of or leased to or by, or proposed to be acquired, disposed of or leased to or by any company in the Group. Save as disclosed herein, no Director or officer of Atlantis has been interested in the promotion of any company in the Group.

(g) Save for the interests of Messrs. Payne, Deacon, Setka and Howes in the acquisitions mentioned herein and as disclosed in paragraphs 4 (i) and (j), no Director or officer of Atlantis is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Group taken as a whole.

(h) The aggregate emoluments of the persons who are now Directors or officers of Atlantis for the year ended 31st December, 1981 amounted to $189,000. It is estimated that for the current financial year ending on 31st December, 1982 such emoluments would amount to $262,500.

(i) (i) The following Directors and officers of Atlantis are beneficially interested in the share capitals of Agincourt and Claremount:—

	Agincourt No. of Shares	Claremount No. of 'B' Shares
L. H. Payne	510 (28 per cent.)	1,000 (10 per cent.)
D. C. Deacon	240 (13 per cent.)	500 (5 per cent.)
E. F. Setka	54 (3 per cent.)	100 (1 per cent.)
L. D. Howes	54 (3 per cent.)	100 (1 per cent.)

Save as aforesaid, no Director or officer of Atlantis is a director or officer of or has any other interest in Agincourt or Claremount.

(ii) Directors and officers of Atlantis have the following participations in the joint ventures referred to under "Joint Venture Management":—

	Joint Venture	Amount of Participation
L. H. Payne	Joint Venture 2	$80,000 (1.5 per cent.)
D. C. Deacon	Joint Venture 1	$50,000 (2.5 per cent.)
L. D. Howes	Joint Venture 2	$20,000 (0.4 per cent.)

(iii) Under the terms of the limited partnerships Agincourt and Claremount receive management fees and are entitled to a percentage of the net profits of the partnerships.

(j) Mr. D. C. Deacon is interested beneficially in 20,000 Ordinary Shares of Le Vallonet and as trustee in a further 55,000 Ordinary Shares.

5. Taxation

Dividends paid by a company resident in Canada to shareholders who are not resident in Canada are subject to a withholding tax at the rate of 25 per cent. However, when a dividend is paid to a U.K. resident as registered shareholder, withholding tax may be deducted at a reduced rate, currently 15 per cent., under the provisions of the Double Taxation Agreement between the U.K. and Canada. The same reduced rate of withholding tax will apply to dividends paid to a U.K. nominee, provided that such nominee is a U.K. collecting agent or nominee (including U.K. marking names). A working arrangement has been formulated with the Inland Revenue whereby it will undertake to collect and remit to Canada any additional non-resident tax due from beneficial owners resident outside the U.K. Residents of the U.K. who are taxable on the remittance basis in respect of foreign source income (i.e. U.K. residents who are domiciled outside the U.K. and those who are British subjects or Republic of Ireland citizens and are not ordinarily resident in the U.K.) may claim a refund of withholding tax only in respect of such of the dividends as are remitted to the U.K.

The net amount of dividends received from Atlantis plus the Canadian withholding tax thereon will, in general, be brought into account for U.K. tax purposes as income of the U.K. resident entitled thereto. U.K. residents who are taxable on the remittance basis will be assessed on the basis of such dividends as are treated as remitted to the U.K.

Different rules will apply to a U.K. resident receiving dividends in respect of shares which are held in connection with a business carried on by that resident in Canada through a permanent establishment or fixed base.

A bonus issue of share capital paid to shareholders who are not resident in Canada is subject to a withholding tax at the rate of 25 per cent., unless it is made with shares of the same class as those in respect of which the entitlement arose to a person who, together with related persons, does not own more than 10 per cent. of the shares of the company on which the dividend was paid. However, where a bonus issue of shares is subject to withholding tax and is made to a U.K. resident as registered shareholder the reduced rate, currently 15 per cent., under the provisions of the Double Taxation Agreement should apply to the extent that it is reasonable to regard the bonus as a dividend within the terms of the Double Taxation Agreement.

Under Canadian law any capital gain arising on a disposal of publicly traded stock of a Canadian company by a non-resident of Canada will be taxable in Canada, if the shares are taxable Canadian property. However, in most cases U.K. residents can claim the protection of the Double Taxation Agreement between the U.K. and Canada, which provides that where shares in a Canadian company are quoted on a recognised stock exchange in Canada or the U.K. any gain on disposal would be taxable only in the country in which the seller is resident. There are certain restrictions where U.K. residents were previously resident in Canada.

U.K. resident or ordinarily resident shareholders will be liable in the usual way to U.K. tax on capital gains arising on a disposal of shares.

6. Articles of Association—The Articles of Association of Atlantis include provisions to the following effect:—

Share Capital

(a) The Board may allot or otherwise dispose of unissued shares on such terms and conditions and to such persons as it may from time to time determine.

Votes of Shareholders

(b) Subject to any restrictions imposed on any particular class of shares, at any General Meeting on a show of hands every shareholder who (being an individual) is present in person or (being a corporation) is present by proxy or a duly appointed representative has one vote and in the case of a poll every shareholder present in person or by proxy has one vote for every share of which he is the registered holder.

Borrowing Powers

(c) The Board may borrow money for the purpose of Atlantis' business and secure the repayment of the same by mortgage or charge on the undertaking and the whole or any part of the assets and property of Atlantis (present and future) including its unissued capital, subject to a Group borrowing limit of the greater of $40,000,000 or twice shareholders' equity.

Directors

(d) A Director is not required to hold any qualification shares.

(e) The remuneration of the Directors is to be determined by the Board. If any Director performs any extra services or any special duties in going or residing abroad for the purposes of Atlantis' business, he may be paid additional remuneration, which may be by a fixed sum, a percentage of profits or otherwise as may be determined.

(f) No Director is disqualified by his office from contracting with Atlantis, nor is any contract or arrangement entered into by or on behalf of Atlantis in which any Director is in any way interested liable to be avoided, nor is any Director so contracting or being interested liable to account to Atlantis for any profit realised thereby, but the nature of his interest must be declared by the Director at a meeting of the Board.

(g) A Director may be appointed by the Board to the office of Managing Director and the Board may fix his remuneration, which may be by way of salary, commission or a right to participate in profits or a combination thereof.

7. Stock Option Plan

(i) On 20th April, 1982 the Board of Directors of Atlantis adopted a Stock Option Plan. The Plan provides that the Board may from time to time in its discretion grant to Directors, officers or employees of Atlantis or any of its subsidiaries options to purchase Common Shares of Atlantis. The Directors are to determine the option price, the number of shares to be allotted and all other terms and conditions of the options. A total of 750,000 Common Shares has been reserved for the Plan. Options will be exercisable for a period of 5 years, subject to earlier termination in the event of the cessation of the option holder's employment with the Group. During each year of the option period options may be exercised in respect of 20 per cent. of the number of shares under option for each calendar year since the granting of the option less the number of shares in respect of which the option has previously been exercised.

(ii) On 11th June, 1982 options to subscribe a total of 450,000 Common Shares were granted to 7 employees exercisable at a price of $1 per share. Of these 100,000 are under option to Mr. E. F. Setka and 70,000 to Mr. L. D. Howes. Save as aforesaid, no capital of Atlantis or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

8. Service Agreements

Mr. L. H. Payne has a Services Agreement with Atlantis for a period of 3 years from 20th April, 1982 at an annual salary of $100,000 (subject to increase by mutual agreement). Save as aforesaid, there are no Service Agreements in force for any Director of Atlantis with any company in the Group.

9. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Atlantis or its subsidiaries since 1st July, 1980 and are or may be material:—

(1) Agreement dated 16th April, 1981 between Air Call (Holdings) Limited (i) and Atlantis Resources (ii), pursuant to which Atlantis Resources acquired 1,250,000 Ordinary Shares of 25p each of Le Vallonet for a cash consideration of £562,500. Pursuant to the same Agreement Mr. D. C. Deacon and Craigmount each acquired 75,000 Ordinary Shares of 25p each of Le Vallonet at 45p per share;

(2) Offer dated 6th May, 1981 made by de Zoete & Bevan on behalf of Atlantis Resources, pursuant to which Atlantis Resources acquired a further 17,013 Ordinary Shares of 25p each of Le Vallonet for a total of £7,656 in cash which shares were subsequently sold at the same price to Mr. Deacon in trust and Craigmount for its discretionary investment clients;

(3) Prospectus dated 11th June, 1982 pursuant to which Atlantis acquired, conditionally as provided therein, (a) all the issued and outstanding Common and Preferred Shares of Atlantis Resources in consideration of the issue credited as fully paid of 13,895,000 Common Shares of Atlantis to the shareholders of Atlantis Resources, of which 10,464,241 shares were issued to Directors and officers of Atlantis, and (b) all the issued and outstanding Common Shares of Atlantis Exploration in consideration of the issue credited as fully paid to Mr. and Mrs. L. H. Payne of 1,714,000 Common Shares of Atlantis;

(4) Agreement executed on 11th June, 1982 between Mr. L. H. Payne (i) and Atlantis (ii), whereby Atlantis acquired with effect from 1st January, 1982, conditionally as provided therein, certain natural gas properties from Mr. L. H. Payne in consideration of the issue credited as fully paid to him of 1,390,997 Common Shares of Atlantis;

(5) Agreement executed on 11th June, 1982 between Mr. L. H. Payne (i) and Atlantis (ii), whereby Atlantis acquired with effect from 1st January, 1982, conditionally as provided therein, certain producing oil properties from Mr. L. H. Payne in consideration of the payment of $1,000,000 in cash to Mr. Payne; and

(6) Agreement dated 1st July, 1982 between Atlantis (i), certain of the Directors (ii) and de Zoete & Bevan (iii), being the contract mentioned in paragraph 3 of this Appendix.

10. Miscellaneous

(a) (i) No company in the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any such company

(ii) No claim in relation to exploration rights has been made or notified either by or against any company in the Group.

(b) Since 1st July, 1980, save as disclosed in paragraphs 1, 2, 3 and 7 of this Appendix and in connection with the proposed offer for Le Vallonet, no capital of Atlantis or of any of its subsidiaries has been issued, or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any such company.

(c) Mr. J. F. Curran, a Director of Atlantis, is a partner in the firm of Bennett Jones, Atlantis' solicitors, which will be receiving normal professional fees in connection with the transactions described in this document.

(d) Atlantis has not established a place of business in Great Britain.

(e) A certificate of exemption has been granted under section 418 of the Companies Act, 1948 by the Council of The Stock Exchange.

11. Consents

Blain Engineering, Seaton-Jordan and Thorne Riddell have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of a copy of their Report or the references to them (as the case may be) in the form and context in which they are respectively included.

12. Documents delivered to the Registrar of Companies

The documents attached to the copy of this document delivered to the Registrar of Companies for registration were copies of the letter by which the above-mentioned 3,000,000 Common Shares are to be placed, the written consents mentioned above, a statement of the adjustments made by Thorne Riddell in arriving at the figures set out in their Report and giving their reasons therefor and copies of the above-mentioned material contracts.

13. Documents for Inspection

Copies of the following documents will be available for inspection at the offices of Norton, Rose, Botterell & Roche, Kempson House, Camomile Street, London EC3A 7AN, during normal business hours until 19th July, 1982:—

(a) the Memorandum and Articles of Association of Atlantis;

(b) the audited accounts of Atlantis as at 31st December, 1981 and the audited accounts of Atlantis Resources and of Atlantis Exploration for the financial periods ended 31st December, 1980 and 31st December, 1981;

(c) the Report of Blain Engineering set out in Appendix 1 and the Engineering and Economic Evaluations in relation to the oil and gas properties of Atlantis Resources, Atlantis Exploration and the Payne Assets prepared by Blain Engineering;

(d) the Report of Seaton-Jordan set out in Appendix 2 and the evaluations of the non-reserve oil and gas properties of Atlantis Resources and of the non-reserve oil and gas properties included in the Payne Assets prepared by Seaton-Jordan;

(e) the Report of Thorne Riddell set out in Appendix 3 and the statement of adjustments relating thereto;

(f) the Stock Option Plan referred to in paragraph 7 of this Appendix;

(g) the Services Agreement referred to in paragraph 8 of this Appendix;

(h) the material contracts referred to in paragraph 9 of this Appendix;

(i) the written consents referred to in paragraph 11 of this Appendix;

(j) the Joint Venture Agreements referred to under "Joint Venture Management"; and

(k) the Companies Act (Alberta).

Dated 1st July, 1982.

BUILDING AND CIVIL ENGINEERING

German outlook gloomy

THE CONTINUING recession in the West German construction industry is forcing some fundamental changes in the sector's make-up and sending contractors still further afield in search of work. Some of the larger construction groups like Holzmann, Hochtief, Bilfinger and Berger had encouraging starts to the year, but often at the expense of the smaller and medium sized companies. The industry leaders are also pegging hopes of higher profits on extensive overseas contracts in the Middle East and North America.

Philipp Holzmann, West Germany's largest construction group, which in February won a DM 2bn Saudi contract, recently forecast "satisfactory" profits for this year primarily as a result of buoyant overseas order books.

example, employed on average 40,000, a 5 per cent drop on the previous year.

The West German Building Industry Federation is pessimistic about the future. It sees 1983 as the earliest date for the start of a recovery. Last year, it claims, the industry lost 10 per cent of its labour force and from past experience it knows they will not return. In the 1973/75 industry shakeout, some 400,000 workers left the construction sector never to return.

Confronted with the prospect of reduced capacity, the Federation believes higher output and improved profit will in future only occur with the advent of increased mechanisation. Despite the Federation's conviction, however, the industry itself has chosen to ignore this advice, protesting that it cannot afford new plant

WEST GERMAN BUILDING INDUSTRY PROFILE—1981

Company	Net profit (DMm)	Turnover (DMbn)	New orders (DMm)	% change
Philipp Holzmann	43	7.7	*—	*—
Hochtief	124	5.5	4.76	−12
Bilfinger und Berger	*—	3.7	4.3	—26
Strabag	11	2.6	3.1	+27

* Not available.

But while large groups like Holzmann attempt to insulate their balance sheets with overseas expansion, their efforts are having a profound effect on the medium-sized building companies in Germany. With building costs now effectively at 1976 levels, many groups are being squeezed into "dangerously competitive" bidding. The number pinned against the wall by bankruptcy has consequently soared.

In 1981, over 1,500 German building companies declared themselves bankrupt, while in the first five months of the current year almost 800 have failed, compared with only 456 in the corresponding period of 1981. In the last seven years 7,741 construction companies have failed and the remaining 59,000 have slimmed down. Last year, Holzmann, for

and equipment. New orders placed for building industry machinery slumped by 34 per cent during January-April compared with the first four months of 1981.

The Building Industry Federation has pleaded with the Bonn government to restore some of the funds cut from public works programmes, but to no avail. Overall industry output is expected to decrease this year by 6-7 per cent, a potentially dangerous decline in what amounts to Germany's largest industrial employer.

Sensing the danger signals, it has been the larger groups which have reacted to the deteriorating conditions. Last November, Hochtief, the second largest building group in Germany, covered its options by purchasing a 20 per cent stake in the industry leader, Holzmann. A month later Hochtief expanded its interests in the Netherlands with the acquisition of the Broekhoven dredging subsidiary of Internatio-Mueller.

Hochtief's foreign markets now represent 54 per cent of group turnover. Its domestic German orders dropped by 25 per cent last year to DM 2.1bn (largely due to the Bonn-inspired cutbacks) whereas overseas contracts improved by 7 per cent to DM 2.6bn. The group's building volume for 1981 however dipped to DM 5.5bn.

A more dramatic shift towards foreign markets was undertaken by Bilfinger and Berger, the third largest West German construction group. Last year, B and B increased its foreign building work by 93 per cent to DM 2.5bn whereas domestic construction amounted to DM 1.1bn.

According to the Building Industry Federation, 55 German construction groups secured foreign orders last year valued at DM 12.1bn and over 93 per cent of this work is based in Opec countries.

But in the first three months of this year, the picture began to lose some of its gloss. A total of 27 companies secured 73 orders worth DM 2.9bn—a startling drop from the DM 5.1bn recorded in the first quarter of 1980.

The future is no more encouraging. The industry realises that it must wait until domestic order books are pumped up by government contracts—an event which will take at least another 18 months to come to pass. Similarly it must not over-extend itself abroad. Productivity will have to increase through heavy investment in mechanisation at prices not many can afford.

Inevitably, more companies are expected to collapse. As one Frankfurt-based builder summed it up: "We built the walls and now our backs are up against them."

PAUL HANNON

Small builder with an important voice

MALCOLM Fordy is a "grass roots" contractor, running a small family building business out of Stockton of Tees and refusing to subscribe to the growing view that the construction industry is at last gaining ground after three years of declining workloads and rising despair.

George Fordy, the company started by his grandfather and of which he is now chairman, could happily contemplate taking on more work. Contracts remain hard to come by and the profit margins available to the winning contractor are invariably pitiful. The company is going back into public sector housebuilding in search of work and has put on one side an understanding with another local contractor not to compete in each other's traditional territory.

"Whatever some people are saying about the end of the recession, some companies are still being crucified, especially in the provinces. Margins are being cut to the bone and I believe the inevitable conclusion is going to be a big increase in the number of contractors shutting up shop. It is time for the industry as a whole to say enough is enough."

Mr Fordy is fortunate in one sense, however. He also happens to be the 1982 President of the National Federation of Building Trades Employers and, as such, his views on the industry might tend to carry a little more clout than if his domain stretched no further than Teesside.

Thirty years a builder, Malcolm Fordy has had a longer apprenticeship than most in preparation for the top job, serving the Federation in a variety of regional and national posts for over 15 years and joining its national council in 1967.

He is proud of the industry and of its performance, though he is the first to acknowledge its weaknesses and believes it labours under a poor image because of the activities of an unprofessional minority.

The poor image of construction is, he hastens to add, a worldwide phenomenon, as his recent travels have confirmed, and the NFBTE's current proposals to introduce a members' guarantee scheme—Office of Fair Trading permitting—would provide automatic indemnity for unsatisfied customers paying a premium in advance.

Malcolm Fordy, president of the National Federation of Building Trades Employers.

As for the industry's ability to present a united front in putting its case to government—the single most important client which also sets the business climate for all the others—he is optimistic but realistic. "Complete federation is a very long way off but we are all in the same business and depend on each other. Closer and continuing co-operation within the construction industries is a must but, at the same time, we need to preserve some of our independence."

Mr Fordy remains unconvinced, however, of the benefits of bodies like the so-called Group of Eight, designed to present a united view to Ministers of the day. "You cannot get everyone to agree on any single subject, apart from the need for more work. The group is better than nothing but its impact on the government has been limited."

Mr Fordy's bluntness and realism may itself help provide some of the impact which has, like the work, been missing.

MICHAEL CASSELL

UK CONTRACTS OVERSEAS

HENRY BOOT'S latest contracts in Hong Kong amount to £14.6m, bringing the total of work obtained in that area by the company to about £40m.

Following the supply and installation of the main line and sidings for the first two phases of the Hong Kong mass transit railway, Henry Boot/Gammon Joint Venture now has the £13m Island Line contract.

This also calls for the supply and installation of track and track bed extending for a distance of 12.5 km from Sheung Wan to Chai Wan plus 8.5 km of depot sidings and two km of workshop track.

Henry Boot Far East will undertake a £1m renovation job on the old Beacon Hill Tunnel on the Kowloon to Canton railway line in Hong Kong, and another £850,000 worth from China Light and Power Company has gone to Henry Boot Clapham, landscapers in Hong Kong, for works to areas outside Castle Peak Power Station boundary.

★

AT ALCALA de Henares, near Madrid, LAING SA has a 10-month contract worth about £5.2m from the Spanish Ministry of Justice to construct a prison for 456 juveniles.

Other work in Spain includes a hotel training centre at Marbella under a £1.6m award from the Ministry of Employment, Welfare and Social Security: a £0.2m award from the Port of Almeria Board for a drinking water reservoir and pipework at Almeria; and a £0.8m reconstruction programme for improvements at the crossing of the CN-150 National Road and the Terrasa railway line at Terrasa, Barcelona.

UK CONTRACTS

MORE THAN £14m worth of work in the UK for companies in the JOHN LAING group includes two major schemes each worth more than £2m. A hospital laundry building in Swindon for the Wessex Regional Health Authority is worth £2.1m, and Leicester Housing Association has awarded £2.4m for the construction of 135 flats in five blocks at Dover Street, Leicester.

A £1.2m houses, flats and maisonettes scheme at St George, Bristol is for the Bristol Churches Housing Association. Three contracts from the London Borough of Southwark are worth more than £1.3m for refurbishment of flats, conversion of garages and repairs to the town hall.

British Shipbuilders Engineering Technical Services have placed nearly £1.8m for a new heavy workshop and refurbishment of an existing one at its Pallion Works at Sunderland.

Work for subsidiary company O. C. Summers includes a £1.5m mainlaying and service laying contract for Thames Water, and two further contracts, each worth £0.25m, are for sewer and drainage works for Westminster City Council and for duct laying for British Telecom in Wales.

★

THE FIRST major contract for work on Rochester Way Relief Road has been let to COSTAIN whose GLC-awarded £6m deal covers the construction of Eltham Well Hall underpass, a key section of the new road which will incorporate a major bus and rail link for travellers.

The relief road will be a 3.5 mile long four-lane dual carriageway running alongside the railway line from Falconwood to Kidbrooke where it swings north to join the Blackwell Tunnel Southern Approach at Shooters Hill Road. A sum of £46m has been earmarked for spending on this road, says the GLC.

★

SOUTH GLAMORGAN County Council's £6.7m contract for the East Moors Link viaduct has gone to SHEPHARD HILL. The accepted tender is based on an alternative design using glued segmental concrete construction in place of the official continuous steel plate girder design.

Shephard says this is probably the first time in the UK that a contractor-consultant team has been awarded a major bridge job using a prestressed concrete alternative to replace an official steel bridge design, and continues the recent trend of competitive alternative bids for bridge contracts in this country.

Tender price includes the cost of the design of the permanent work being carried out for Shephard by Robert Benaim consulting civil engineers and the design check which will be made by G. Maunsell and Partners.

★

THREE NEW schemes, together valued at £3m, have been awarded to WHITTINGHAM CONSTRUCTION by Phoenix Industrial Properties, for the company to construct industrial units with ancillary offices on sites in Amersham, Bucks; Emmerson Park, Essex; and Letchworth, Herts.

At White Lion Road, Amersham—the company's first contract in Buckinghamshire—17 units are being built in four blocks for industrial and warehousing use. Traditional steel frame and cladding techniques are being adopted, with office accommodation contained in one or two storeys. Phoenix placed the contract on behalf of Barclay Trust.

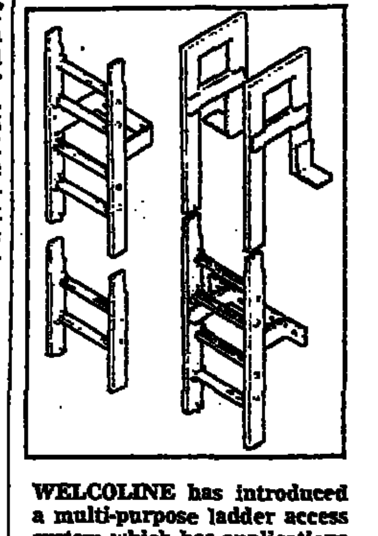
Acting on behalf of Morrison Developments, Phoenix has contracted for 12 units in four blocks at Ammerson Park with completion programmed for this October.

For Protea Industrial Estates will be six units in three blocks in Pixmore Avenue, Letchworth, in sizes ranging from between 4,000 and 25,000 sq ft.

★

TARMAC says it has several million pounds in new awards including a £1m pipeline renewal scheme for the CEGB at Eggborough, Humberside, and £730,000 for road improvements and associated works at Lydiard Tregoze, Swindon.

WHAT'S NEW IN BUILDING



WELCOLINE has introduced a multi-purpose ladder access system which has applications in the oil and shipbuilding industry, particularly where there is limited access.

The ladder is made in modules and therefore does not have to be custom-built, saving time and money.

It is estimated that in a large city there may well be in excess of half a million manholes for either water, gas, electricity, sewage and other utilities, and in a great many cases the fixed access system was put in 25 or more years ago.

To replace it with a custom-built ladder may be impossible, since other building works have been built around it, whereas the modular ladder simplifies the problem.

This ladder access system can be made in either mild steel, aluminium or stainless steel.

Local authorities' planning speed-up

LOCAL authorities are taking less time to process fewer planning applications. That is one unkind interpretation that can be drawn from the latest Government statistics measuring how long it takes councils to make planning decisions.

The good news is that 70 per cent of applications received by English local authorities during the last quarter of 1981 were dealt with within the statutory eight-week period. Ninety per cent of applications were decided within 13 weeks.

Mr Giles Shaw, Environment Under Secretary, said that it was the best performance by councils since quarterly statistics were first published in 1979.

More disturbing for the hard-pressed construction industry will be the news that only 89,000 planning applications were made during the fourth quarter of 1981, the first time that applications have dipped below the 100,000 mark.

The Environment Department says that "the unusual circumstances of the past few quarters make it difficult to evaluate fully the implications of the reduction." One explanation, according to the Department, is that an unusually large number of applications were brought forward last year, ahead of the introduction of fees for planning application on April, 1981.

Of the 89,000 applications processed during the fourth quarter, 77,000 (87 per cent) were approved, according to the Department whose figures are based on returns from 345 (94 per cent) of English local authorities. The Department also published a league table of the best performers during the quarter.

The table showed that Berwick-upon-Tweed had processed all 63 applications received during the quarter within the statutory eight weeks. Vale Royal in Cheshire processed 99.5 per cent of its 202 applications and Wansbeck, Northumberland, 97.6 per cent of its 123 applications within eight weeks.

Among the slowest planning authorities were Woking which processed only 11.6 per cent of its 258 applications within the statutory eight weeks. Hackney only processed 13.6 per cent of its 154 applications while only 21.4 per cent of Bromley's 744 applications were determined within eight weeks.

ANDREW TAYLOR

WORLD STOCK MARKETS

NEW YORK

1982 High	Low	Stock	July 2
40⅞	30¼	ACF Industries	30½
27⅛	14½	AMF	16¼
27¾	23¾	ARA	27½
44⅝	26¼	ASA	27
20	11⅞	AVX Corp	17
31¾	25⅝	Abbot Labs	28⅝
24⅛	17	Acme Cleve	17⅝
31	16	Adobe Oil & Gas	16¼
26⅞	15½	Advanced Micro	23⅜
47⅞	33½	Aetna Life & Cas	34⅝
14⅞	8⅛	Ahmanson (H.F.)	9
37⅜	26½	Air Prod & Chem	29¼
15⅝	8¼	Akzona	15⅝
27	24¼	Albany Int	25
15	11	Alberto-Culv	12¼
33⅞	24¼	Albertson's	32⅞
23⅛	16	AlcanAluminium	17⅛
22	17¼	Alco Standard	20¼
30¼	23¾	Alexander & Al	24¼
32½	23⅛	Alegheny Int	23⅛
46⅛	30¼	Allied Corp	30⅝
31⅝	24¾	Allied Stores	28⅝
15⅞	12⅛	Allis-Chalmers	12⅝
13⅝	9⅝	Alpha Portd	12⅛
26⅞	22	Alcoa	22¼
51½	39⅝	Amal. Sugar	48¼
48¼	18½	Amax	20
28¼	17¾	Amdahl Corp	18¼
24½	16¼	Amerada Hess	18⅛
18¼	9⅛	Am. Airlines	17⅛
44	35⅝	Am. Brands	39⅝
38½	18½	Am. Broadcast'g	37⅝
35⅝	25⅞	Am Can	28¼
29½	24⅝	Am. Cyanamid	28½

1982 High	Low	Stock	July 2
33½	28¾	Columbia Gas	30
23¼	17⅞	Combined Int	19
36⅝	23½	Combustn. Eng	23
22½	19½	Cmwlth. Edison	21
57⅛	49¾	Comm. Satellite	52
15	11¼	Comp. Science	12
32½	28	Cone Mills	28
27½	21¼	Conrac	23
38⅝	17¼	Cons Edison	17
36	29¾	Cons. Foods	34
40⅛	32¾	Cons Freight	36
25¼	20½	Con. Nat. Gas	24
18⅛	16½	Consumer Power	17
4¾	3	Cont. Air Lines	4
28⅝	23	Contl. Corp	23
33⅛	25⅝	Contl. Group	26
36⅛	22	Contl. Illinois	22
17¼	15	Contl.Teleph	16
36¾	23	Control Data	23
52⅛	26	Cooper Inds	26
13	9⅞	Coors Adolph	10
26⅝	13¼	Copperweld	13
56⅞	39⅞	Corning Glass	43
22	19⅝	Corroon Black	19
32⅝	24	Cox Broadcast'g	24
35½	22¼	Crane	24
36	25½	Crocker Nat	25
30⅝	22¾	Crown Cork	24

HONG KONG

1982 High	Low	July 2	Price HK$
22.5	14.4	Cheung Kong	15.0
2	1.65	Cosmos Prop	1.70
11.7	10.1	Cross Harbour	10.2
150	87	Hang Seng Bank	87.5
6.7	4.67	HK Electric	6.15
2.95	4.07	HK Kowloon Wh.	4.67
9.65	6.45	HK Land	7.4
12.2	9.6	HK Shanghai BK.	11.1
34.25	25.2	HK Telephone	31.5
18.5	13.5	Hutchison Wpa	15.5
18.6	12.5	Jardine Math	16.8
5.15	3.5	New World Dev	3.95
6.35	4.7	O'seas Trust Bk.	5.50
9.2	5.5	SKH Props	7.00
12.6	8.85	Swire Pac A	11.1
6.9	4.9	Wheel'k Mard A.	5.55
5.2	4.6	Wheel'k Marit'e	4.6
3.25	2.27	World Int. Hldgs.	2.67

JAPAN

1982 High	Low	July 3	Price Yen
949	795	Ajinomoto	833
720	605	Amada	508
718	474	Asahi Glass	474
462	399	Bridgestone	436
1,010	643	Canon	687

BRAZIL

1982 High	Low	July 2	Price Cruz
7.90	2.35	Brahma PP	6.75
8.88	6.50	Lojas Amer	6.75
5.20	2.00	Mannesmann OP	2.50
12.20	6.3	Petrobras PP	12.00
11.20	6.31	Souza Cruz	10.90
15.0	4.65	Unip PE	8.20
18.00	7.6	Vale Rio Doce	15.70

TEL AVIV

Company	Prices July 4 1982	Change on the week
Banking, Insurance and Finance		
Bank Leumi le Israel	1,451	+ 32
IDB Bankholding	2,320	+ 82
Bank Hapoalim Br.	1,925	+ 78
Union Bk. of Israel Br.	1,496	+ 45
United Mizrahi Bank	983	+ 25
Hassneh Insurance Br.	1,940	+160
General Mort. Bank Br.	880	—
"Tefahot" Isrl. Mt. Bk.	2,300	+ 5
Danot S/O	342	+ 37
Land Development		
Africa Israel Inv. I£10	4,400	+256
Israel Land Devpt. Br.	1,690	+ 55
Property and Building	2,065	+195
Public Utility		
Super Sol "A"	1,500	—
Investment Companies		
Bank Leumi Invest.	637	− 1
"Clal" Israel Invest.	973	+ 32
Discount Invest.	1,225	+ 65
Commercial and Industrial		
Dead Sea Works	2,475	—

Source: Bank Leumi le Israel BM, Tel Aviv. † Bid.

NOTES:—Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

Indices

NEW YORK —DOW JONES

	June 30	June 23	June 16	Year ago (approx)
Indust'l div. yield %	5.91	5.89	5.97	4.85
Indust'l P/E ratio	7.70	7.76	7.65	9.27
Long Gov. Bond yield	13.73	14.02	13.66	13.27

N.Y. S.E. ALL COMMON

July 2	July 1	June 30	June 29	1982 High	1982 Low
61.99	62.51	63.02	63.26	71.20 (4/1)	61.73 (21/6)

Rises and Falls

	July 2	July 1	June 30
Issues Traded	1,798	1,800	1,855
Rises	605	460	801
Falls	857	910	603
Unchanged	435	430	451
New Highs	—	14	29
New Lows	—	59	37

MONTREAL

	July 2	July 1	June 30	June 29	1982 High	1982 Low
Industrials	252.55	(c)	254.02	255.32	332.78 (4.1)	249.88 (21/6)
Combined	237.84	(c)	239.51	240.65	316.88 (4.1)	237.27 (21/6)
TORONTO Composite	1359.9	(c)	1368.8	1368.8	1868.3 (4.1)	1355.7 (21/6)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Sony	1,973,100	12¾	− ⅛
Tesco	708,000	13⅞	+ ⅛
Exxon	652,700	27⅞	− ⅛
Superior Oil	581,300	29	+1⅛
Kerr McGee	530,500	31⅞	+1⅞
Schlumberger	507,800	35⅞	−1⅛
Intl. Min.	492,900	25⅝	− ⅞
Citicorp.	432,900	25⅞	—
Amer. Express	411,600	38⅞	−1⅛
ATT	381,200	50¼	− ⅛

MONEY MARKETS

A more relaxed attitude

A slightly more relaxed attitude pervaded European money markets last week as the upward pressure on Eurodollar interest rates abated. With half-year book squaring out of the way, an easier trend in the Federal funds overnight rate, and a surprisingly large fall in the previous week's M1 money supply figures, market nerves were somewhat calmed.

There was no significant change in Bank of England money market dealing rates, apart from setting a general level of 12 7/16 per cent for band 4 (64.91 day) bills, compared with the previous range of 12¼-12 7/16 per cent. At the same time the key seven-day interbank rate has been very steady at around 12¾-13 per cent, suggesting that the slight upward adjustment in the rate at which the authorities buy bills from the market was simply a reflection of nervous conditions early in the week.

As U.S. rates moved up in recent weeks the discount houses became less inclined to hold longer dated bills, and this point was born out at the June 25 Treasury bill auction when applications fell to £390.8m from £523.55m for the same number of £100m bills, while at last Friday's tender applications recovered slightly to £422.7m, and the average rate of discount fell to 12.2313 per cent from 12.2696 per cent.

In Paris the Bank of France took advantage of the more stable situation with regard to U.S. rates, and cut the general level of French interest rates. On Friday the level at which the central bank supports the domestic market by buying first category paper was cut to 15 per cent from 15¼ per cent. Call money was left at 15¼ per cent, after falling seven times from 16¾ per cent since the devaluation of the franc in the middle of last month.

Elsewhere in Europe interest rates were little changed, although call money was fairly volatile in Amsterdam, falling to 5¼ per cent from 7½ per cent on Tuesday, but then rising to 8¼ per cent on Thursday as liquidity tightened due to tax payments and sales of Government paper.

In Zurich, major banks reduced time deposit rates. But in Frankfurt, Bundesbank credit policies were unchanged at the regular central bank council meeting.

WEEKLY CHANGE IN WORLD INTEREST RATES

	July 2	change		July 2	change
LONDON			**NEW YORK**		
Base rates	12½	Unch'd	Prime rates	16½	Unch'd
7 day Interbank	12⅝-13	—1/16	Federal funds	14¾-15	Unch'd
3 mth Interbank	12 15/16-13 1/16	—⅛	3 mth Treasury Bills	12.55	—0.49
Treasury Bill Tender	12.2313	—0.0383	6 Mth. Treasury Bills	12.96	—0.34
Band 1 Bills	12⅝	Unch'd	3 Mth. C D	15.25	—0.25
Band 2 Bills	12½	Unch'd	**FRANKFURT**		
Band 3 Bills	12⅜	Unch'd	Lombard	9.0	Unch'd
3 Mth. Treasury Bills	12¼-12 9/32	Unch'd	One Mth. Interbank	9.45	+0.25
1 Mth. Bank Bills	12 17/32	+1/32	Three month	9.55	+0.10
3 Mth. Bank Bills	12 7/16	Unch'd	**PARIS**		
TOKYO			Intervention Rate	15	—¼
One month Bills	7.34375	Unch'd	1 Mth. Interbank	15 3/16	—¼
Three month Bills	7.28125	Unch'd	Three month	14 15/16	—⅜
BRUSSELS			**MILAN**		
One month	15½	—1/16	One month	20 1/16	Unch'd
Three month	15⅝	—⅛	Three month	20 1/16	Unch'd
AMSTERDAM			**DUBLIN**		
One month	8⅞	—⅛	One month	19¾	Unch'd
Three month	9 1/16	+⅛	Three month	19⅝	—⅛

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, and band 3 bills 34 to 63 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market, and their respective changes during the week. *Band 4 12 7/16.

BANK OF ENGLAND TREASURY BILL TENDER

	July 2	June 25		July 2	June 25
Bills on offer	£100m	£100m	Top accepted rate of discount	12.2356%	12.2736%
Total of applications	£422.735m	£390.8m	Average rate of discount	12.2313%	12.2696%
Total allocated	£100m	£100m	Average yield	12.62%	12.66%
Minimum accepted bid	£96.95	£96.94	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	76%	80%			

FT LONDON INTERBANK FIXING

3 months U.S. dollars	
bid 15 15/16	offer 16 1/16
6 months U.S. dollars	
bid 16 3/16	offer 16 5/16

The fixing rates (July 2) are the arithmetical means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11 am each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

LONDON MONEY RATES

July 2 1982	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount Market Deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	12-13	12⅝-12¾	—	—	13	12-12⅝	—	—	—
2 days notice	[illegible]	[illegible]	12⅝-12¾	—	—	—	—	—	—	—
7 days or	[illegible]	[illegible]	—	—	—	—	—	—	—	—
7 days notice	[illegible]	[illegible]	12¾	—	—	13⅛-13¼	12⅛-12⅝	—	—	—
One month	[illegible]	[illegible]	13	13⅛-13¼	13	13¼	12⅛-12⅝	12⅛-12 17/32	12 17/32	13 3/16
Two months	[illegible]	[illegible]	—	13⅛-13¼	13	13¼-13⅜	12¼-12⅝	12⅜-12 13/32	12⅜-12 13/32	13 5/16
Three months	[illegible]	[illegible]	13	13⅜-13⅛	13	13¼-13⅜	12¼-12⅜	12¼-12 9/32	12 7/16	13
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	—	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	—	—	—
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	—	—	—	—	—
Two years	—	—	[illegible]	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice, others seven days fixed. Long-term local authority mortgage rates, nominally three years 13¾ per cent; four years 13⅞ per cent; five years 13⅞ per cent. ♦ Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 12 15/32-12½ per cent; four months trade bills 13 per cent.

Approximate selling rate for one month Treasury bills 12 13/32-12⅛ per cent; two months 12⅜-12 13/32 per cent; three months 12⅜-12⅛ per cent. Approximate selling rate for one month bank bills 12½ per cent; two months 12 15/32-12½ per cent and three months 12¼-12⅜ per cent; one month trade bills 13¼ per cent; two months 12⅞ per cent; three months 12¾ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 13½ per cent from July 1 1982. London and Scottish Clearing Bank Rates for lending 12½ per cent. London Clearing Bank Deposit Rates for sums at seven days' notice 9¼ per cent. Treasury Bills: Average tender rates of discount 12.2313 per cent. Certificates of Tax Deposit (Series 6) 13¾ per cent from June 30. Deposits withdrawn for cash 11 per cent.

EURO-CURRENCY INTEREST RATES (Market closing Rates)

July 2	Sterling	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira	Belgian Franc Conv.	Belgian Franc Fin.	Yen	Danish Krone
Short term	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 day's notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9 1/16-9 3/16	15⅛-15⅜	20¼-21¼	15½-16½	15 7/16-15⅝	7-7⅛	16⅝-17⅛
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9 1/16-9 3/16	16⅛-16¾	21¼-22	16-17	15½-15¾	7 3/16-7 5/16	16-17½
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9 1/16-9 7/16	17¾-18	22-22½	16-17	15½-15¾	7 3/16-7 5/16	17⅛-18⅝
One Year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9⅝-9½	18⅝-18¾	22½-23⅛	16¼-16¾	15⅜-15⅝	7⅛-7¼	17¾-19¼

SDR linked deposits: one month [illegible] per cent; three months [illegible]-13 9/16 per cent; six months 13½-13⅞ per cent; one year 13½-13⅞ per cent.

ECU linked deposits: one month [illegible]-12 11/16 per cent; three months [illegible] per cent; six months 13⅛-13½ per cent; one year 13⅛-13⅜ per cent.

Asian $ (closing rates in Singapore): one month [illegible] per cent; three months 15 11/16-15 15/16 per cent; six months 16⅛-16⅝ per cent; one year 15 11/16-16 3/16 per cent. Long-term Eurodollar two years 15⅞-16⅛ per cent; three years 15⅞-16⅛ per cent; four years 15⅞-16⅛ per cent; five years 15⅞-16⅛ per cent; nominal closing rates. Short-term rates are call for U.S. dollars, Canadian dollars and Japanese yen; others two days' notice.

The following rates were quoted for London dollar certificates of deposit: one month 15.15-16.25 per cent; three months 15.60-15.70 per cent; six months 15.75-15.85 per cent; one year 15.75-15.85 per cent.

CURRENCIES AND GOLD

Dollar declines

Easier Eurodollar rates pushed the dollar down from its recent peaks in rather confused foreign exchange last week. Doubts about Federal Reserve monetary policy, following better money supply figures than expetced, and hopes of another small cut in last week's M1 figure, contributed to the uncertain conditions. By Friday trading became very quiet, ahead of the Independence Day holiday in the U.S. today.

The dollar fell to DM 2.4760 from DM 2.4830, against the D-mark during the week; to FFr 6.8690 from FFr 6.8850; against the French franc; to Y256.45 from Y257.40 against the Japanese yen; and to SwFr 2.1035 from SwFr 2.1170 in terms of the Swiss franc.

During the week three-month Eurodollars fell to 15 15/16 per cent from 16 5/16 per cent, and during the same period Eurosterling rate eased to 13 5/16 per cent from 13 7/16 per cent. The dollar's trade-weighted index, on Bank of England figures, declined to 121.0 from 121.6, but sterling's index was unchanged at 91.3.

The pound rose to $1.7315 from $1.7255, but showe d mixed changes against other currencies. It rose to DM 4.2875 from DM 4.2850, and to FFr 11.89 from FFr 11.87, but eased to Y444 from Y444.25, and fell to SwFr 3.6425 from SwFr 3.6550.

There was some disappointment on Thursday at the West German inflation for June, but the D-mark tended to gain support from the agreement by the German Government on the 1983 federal budget.

The Italian lira remained the strongest member of the European Monetary System, followed by the French franc. Both currencies have been quite firm after their devaluations last month. The D-mark and Dutch guilder were revalued at the same time, and were virtually level at the bottom of the system last week.

Gold rose $8 to $313 in quiet trading. It touched a low of $302 on Monday, but then showed a slightly firmer trend overall, rising to a peak of $318¾ on Wednesday.

THE DOLLAR SPOT AND FORWARD

July 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7290-1.7400	1.7310-1.7320	0.38-0.43c dis	—2.81	1.33-1.38dis	—3.13
Ireland†	1.3900-1.4010	1.3900-1.3920	0.60-0.45c pm	4.51	1.35-1.10 pm	3.51
Canada	1.2865-1.2900	1.2870-1.2880	0.12-0.15c dis	—1.26	0.39-0.43dis	—1.27
Nethlnd.	2.7200-2.7350	2.7320-2.7350	1.60-1.50c pm	6.82	4.65-4.55 pm	6.75
Belgium	47.05-47.33	47.31-47.33	2-4c dis	—0.76	4-8 dis	—0.51
Denmark	8.5130-8.5500	8.5450-8.5500	0.90-0.65ore pm	1.09	1.50-1.00 pm	0.58
W. Ger.	2.4660-2.4800	2.4755-2.4765	1.40-1.35pf pm	6.66	4.15-4.10 pm	6.65
Portugal	83.40-84.00	83.80-84.00	30-130c dis	—11.44	70-370 dis	—10.49
Spain	111.20-111.50	111.25-111.35	75-85c dis	—8.61	215-235dis	—8.08
Italy	1,383½-1,391	1,387½-1,388½	6-6½ lire dis	—5.52	18¾-19¾dis	—5.48
Norway	6.3050-6.3250	6.3050-6.3100	0.30-0.70ore dis	—0.95	1.20-1.60dis	—0.89
France	6.8175-6.8715	6.8665-6.8715	0.25-0.05c pm	0.26	1.10-1.50dis	—0.76
Sweden	6.1020-6.1300	6.1130-6.1180	0.60-0.30ore pm	0.78	2.00-1.80 pm	1.24
Japan	254.80-256.80	256.40-256.50	1.92-1.84y pm	8.80	5.62-5.52 pm	8.69
Austria	17.31-17.41½	17.40½-17.41½	11¼-10gro pm	7.33	33½-30½ pm	7.36
Switz.	2.0900-2.1060	2.1030-2.1040	1.98-1.90c pm	11.07	5.70-5.62 pm	10.76

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

July 2	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	1.7290-1.7400	1.7310-1.7320	0.38-0.43c dis	—2.81	1.33-1.38dis	—3.13
Canada	2.2275-2.2375	2.2290-2.2310	0.75-0.85c dis	—4.30	2.55-2.85dis	—4.66
Nethlnd.	4.71½-4.74½	4.73¼-4.74¼	1¾-1¼c pm	3.80	4½-4 pm	3.59
Belgium	81.50-82.00	81.88-81.98	20-25c dis	—3.29	67-77 dis	—3.51
Denmark	14.76-14.83	14.81-14.83	1½-2ore dis	—1.26	7¾-9 dis	—2.26
Ireland	1.2413-1.2470	1.2460-1.2470	0.69-0.81p dis	—7.22	1.99-2.16dis	—6.66
W. Ger.	4.26½-4.29½	4.28¾-4.29¾*	1⅜-1¼pf pm	3.85	4-3½ pm	3.50
Portugal	144.50-146.50	145.00-145.50	80-265c dis	—14.25	230-765dis	—13.70
Spain	192.60-195.00	192.85-193.15	170-195c dis	—11.35	510-555dis	—11.04
Italy	2,398-2,407	2,398¾-2,400¾	15-18 lira dis	—8.25	50-54 dis	—8.67
Norway	10.92-11.04	10.93-10.94	3¾-4½ore dis	—4.32	11½-12½dis	—4.32
France	11.84-11.90	11.88½-11.89½	2-4c dis	—3.03	10½-12½dis	—3.87
Sweden	10.59-10.83	10.59¾-10.60¾	1¾-2¾ore dis	—2.26	4½-5¾ dis	—1.84
Japan	440-446	443½-444½	2.29-2.09y pm	5.92	6.33-6.13 pm	5.61
Austria	30.00-30.20	30.10-30.15	14-11gro pm	4.98	36½-30 pm	4.41
Switz.	3.63-3.65	3.63¾-3.64¾	2⅞-2⅜c pm	8.65	7⅜-6⅞ pm	7.82

Belgian rate is for convertible francs. Financial franc 89.50-89.60. Six-month forward dollar 2.72-2.77c dis, 12-month 4.65-4.80c dis.
* The closing rate for July 1 should have read 4.28¼-4.29¼.

FORWARD RATES AGAINST STERLING

	Spot	1 month	3 month	6 month	12 month
Dollar	1.7315	1.7356	1.7451	1.7590	1.7788
D-Mark	4.2875	4.2738	4.2500	4.2141	4.1519
French Franc	11.89	11.9200	12.0050	12.1917	12.4724
Swiss Franc	3.6425	3.6163	3.5713	3.5210	3.4136
Japanese Yen	444.0	441.8	437.7	432.1	424.2

EMS EUROPEAN CURRENCY UNIT RATES

	ECU central rates	Currency amounts against ECU July 2	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	44.9704	45.1500	+0.40	+0.27	±1.5501
Danish Krone	8.23400	8.16618	—0.82	—0.95	±1.6430
German D-Mark	2.33379	2.36098	+1.17	+1.04	±1.0888
French Franc	6.61387	6.55211	—0.93	—1.06	±1.3940
Dutch Guilder	2.57971	2.61011	+1.18	+1.05	±1.5004
Irish Punt	0.691011	0.685303	—0.83	—0.96	±1.6691
Italian Lira	1350.27	1326.86	—1.73	—1.73	±4.1369

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

CURRENCY MOVEMENTS

July 2	Bank of England Index	Morgan Guaranty Changes%
Sterling	91.3	—32.1
U.S. dollar	121.0	+12.9
Canadian dollar	85.6	—21.5
Austrian schilling	117.1	+26.8
Belgian franc	94.8	—1.3
Danish kroner	82.3	—14.3
Deutsche mark	124.8	+49.1
Swiss franc	145.5	+96.3
Guilder	115.7	+22.8
French franc	74.1	—20.1
Lira	53.5	—58.4
Yen	132.2	+25.8

Based on trade weighted changes from Washington agreement December, 1971. Bank of England index (base average 1975=100).

CURRENCY RATES

July 2	Bank rate %	Special Drawing Rights	European Currency Units
Sterling	—	0.628644	0.652271
U.S. $	12	1.09120	0.958191
Canadian $	16.58	*	1.23367
Austria Sch.	6¾	18.9280	16.6270
Belgian F	14	51.3928	45.1500
Danish Kr.	11	N/A	8.16618
D mark	7½	2.68784	2.36098
Guilder	8	2.97243	2.61011
French Fr.	9½	7.46163	6.55211
Lira	19	1511.31	1326.86
Yen	5½	278.692	244.914
Norwgn. Kr.	9	6.8887	6.05385
Spanish Pts.	8	121.380	106.647
Swedish Kr.	10	6.66178	5.86269
Swiss Fr.	5½	2.28661	2.00789
Greek Dr'ch.	20½	N/A	66.2834

* C$/SDR rate for July 1: N/A.

GOLD MARKETS

	July 2		July 1	
Gold Bullion (fine ounce)				
Close	$312½-313½	(£180½-181)	$310½-311½	(£187½-179)
Opening	$313½-314½	(£180-180½)	$313½-314½	(£181-181½)
Morning fixing	$313	(£180.351)	$311.75	(£179.973)
Afternoon fixing	$312.75	(£180.519)	$310.25	(£178.928)
Gold Coins July 2				
Krugrnd	$321¾-322½	(£185¾-186¼)	King Sov $82½-84	(£47½-48)
½ Krug	$165¾-166¾	(£95¾-96¼)	Victoria Sov $82½-84	(£47½-48)
¼ Krug	$84½-85½	(£48¾-49¼)	French 20s $74¼-75¾	(£42¾-44½)
1/10 Krug	$34½-35½	(£20-20½)	50 pesos Mex. $383-385½	(£221¼-222¼)
Mapleleaf	$321¾-322¾	(£185¾-186¼)	100 Cor. Aust $304¼-307¼	(£175-177¼)
New Sov	$74¼-74¾	(£42¾-43¼)	$20 Eagles $376-383	(£216¼-221¼)

OTHER CURRENCIES

July 2	£	$		£ Note Rates
Argentino Peso	27.262-27.302	15.700-15.750	Austria	29.95-30.25
Australia Dollar	1.6980-1.7000	0.9805-0.9810	Belgium	88.30-89.30
Brazil Cruzeiro	299.23-300.23	172.33-173.19	Denmark	14.72-14.86
Finland Markka	8.180-8.189	4.7250-4.7270	France	11.79-11.89
Greek Drachma	119.508-120.062	69.00-69.50	Germany	4.25¼-4.29¼
Hong Kong Dollar	10.286-10.2000	5.8885-5.8935	Italy	2340-2380
Iran Rial	146.35*	84.30*	Japan	443-446
Kuwait Dinar (KD)	0.4980-0.4990	0.2876-0.2880	Netherlands	4.70¼-4.74¼
Luxembourg Fr.	81.88-81.98	47.31-47.33	Norway	10.92-11.02
Malaysia Dollar	4.0880-4.0980	2.3630-2.3660	Portugal	142-158
New Zealand Dlr.	2.3340-2.3380	1.3475-1.3496	Spain	185½-191½
Saudi Arab. Riyal	5.9520-5.9610	3.4390-3.4406	Sweden	10.57-10.67
Singapore Dollar	3.72-3.73	2.1510-2.1540	Switzerland	3.61¾-3.65¾
Sth. African Rand	1.9825-1.9850	1.1450-1.1465	United States	1.72½-1.74½
U.A.E. Dirham	6.3535-6.3645	3.6715-3.6745	Yugoslavia	82-97½

* Selling rate.

EXCHANGE CROSS RATES

July 2	Pound St'rling	U.S. Dollar	Deutschem'k	Japanese Yen	French Franc	Swiss Franc	Dutch Guild'	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1	1.732	4.288	444.0	11.89	3.643	4.738	2400.	2.230	81.93
U.S. Dollar	0.578	1.	2.476	256.4	6.867	2.104	2.736	1386.	1.288	47.32
Deutschemark	0.233	0.404	1.	103.6	2.773	0.850	1.105	559.7	0.520	19.11
Japanese Yen 1,000	2.252	3.900	9.657	1000.	26.78	8.204	10.67	5405.	5.023	184.5
French Franc 10	0.841	1.456	3.606	373.4	10.	3.063	3.984	2018.	1.876	68.91
Swiss Franc	0.275	0.475	1.177	121.9	3.264	1.	1.301	658.8	0.612	22.49
Dutch Guilder	0.211	0.365	0.905	93.72	2.510	0.769	1.	506.5	0.471	17.29
Italian Lira 1,000	0.417	0.722	1.787	185.0	4.955	1.518	1.974	1000.	0.929	34.14
Canadian Dollar	0.448	0.776	1.923	199.1	5.332	1.633	2.124	1076.	1.	36.74
Belgian Franc 100	1.221	2.113	5.233	541.9	14.51	4.445	5.782	2929.	2.722	100.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED TRUSTS

[illegible]

NOTES

[illegible]

INSURANCES

INSURANCE & OVERSEAS MANAGED FUNDS

Abbey Life Assurance Co. Ltd.
1-3 St. Paul's Churchyard, EC4P 4DX. 01-248 9111

Property Fund	228.4	240.5	—	—
Equity Fund	48.1	50.7	−0.3	—
Property Acc.	267.6	281.7	—	—
Equity Acc.	47.7	50.3	−0.5	—
Selective Fund	145.9	153.6	−0.8	—
Money Fund	167.2	176.0	—	—
Convertible Fund	179.3	188.8	—	—
Prop. Fd. Ser. 4	210.9	222.0	—	—
Equity Ser. 4	51.8	54.7	−0.5	—
Man. Ser. 4	196.8	207.2	−0.7	—
Money Ser. 4	151.7	159.7	—	—
Conv. Ser. 4	151.8	159.8	—	—
Fixed Int. Fd. Ser. 4	117.2	123.7	—	—
American Ser. 4	108.0	113.7	−2.4	—
High Inc. Ser. 4	115.1	121.2	−0.7	—
Indexed Inv. Series 4	96.7	101.8	—	—
Pension Property	319.2	336.1	—	—
Pension Equity	277.9	292.6	−2.9	—
Pension Selective	147.3	155.1	−0.8	—
Pension Managed	292.6	308.0	−1.3	—
Pension Security	223.3	235.1	—	—
Pension Fixed Int.	114.8	120.9	—	—
Pension Indexed Inv.	96.9	102.0	—	—

Albany Life Assurance Co. Ltd.
31, Old Burlington St., W.1. 01-437 5962

Equity Fd. Acc.	315.9	332.5	—	—
Fixed Int. Acc.	196.5	[illegible]	—	—
Gtd. Money Fd. Ac.	156.7	164.9	—	—
Intl. Man. Fd. Acm.	141.7	149.1	—	—
Intl. Fxd. Int. Fd.	107.3	112.9	—	—
Prop. Fd. Acc.	159.5	167.9	—	—
M'ple Inv. Acc.	247.8	260.8	—	—
Equity Pen. Fd. Acc.	432.7	455.4	—	—
Fixed I. Pen. Acc.	316.2	332.8	—	—

Crown Life—Continued

St. George Mngd. Fd.	110.1	115.8	—	—
Lines & Gen. Fd.	119.5	125.8	—	—
Sage Fd.	67.1	70.6	—	—
Heritage Fd.	98.3	103.6	—	—
DBS Managed	104.1	109.5	—	—
Crown. Brit. Inv. A	277.2		—	—
Pens. Mngd. Fd.	147.3	152.6	—	—
Pens. Mang'd. Acc.	109.6	115.4	—	—
Pens. Mang'd. Init.	106.1	111.6	—	—
Pens. Equity Acc.	100.5	105.7	—	—
Pens. Equity Init.	96.8	101.8	—	—
Pens. Fxd. Int. Acc.	107.6	113.2	—	—
Pens. Fxd. Int. Init.	103.9	109.3	—	—
Pens. Money Acc.	109.1	114.8	—	—
Pens. Money Init.	105.1	110.6	—	—

Crusader Insurance PLC
Tower Hse., 38 Trinity Sq., EC3N 4DJ 488 2323

Growth Prop. June 8	100.7	110.7	—	—
Managed Pens. June 9	117.24	124.43	—	—

Eagle Star Insur./Midland Assur.
1, Threadneedle St., EC2. 01-588 1212

Eagle/Mid. Units	76.0	78.8	−0.5	4.31

Equity & Law Life Ass. Soc. Ltd.
Amersham Road, High Wycombe. 0494 33377

UK Equities Fund	183.6	193.4	−0.2	—
Higher Inc. Fund	117.7	123.9	−0.4	—
Property Fund	192.1	202.2	—	—
Fixed Interest Fund	141.1	148.5	−0.2	—
Index Linked Secs. Fd.	93.3	98.2	—	—
Gtd. Deposit Fund	135.7	142.8	—	—
Nth. America Fund	104.5	109.9	−1.0	—
Far East Fund	82.0	86.3	−1.4	—
International Fund	96.2	101.2	−1.2	—
Mixed Fund	165.1	173.7	−0.6	—

Equity & Law (Managed Funds) Ltd.

OFFSHORE AND OVERSEAS

NOTES

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked & Variable Rate

INT. BANK AND O'SEAS GOVT. STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH AND AFRICAN LOANS

1J	1D	Aust. 6pc 1981-83	92¼	30.4	6.54	12.45
1Ja	1J	N.Z. 7½pc 1988-92	64¼xd	—	11.28	13.98
15D	15J	Do. 7½pc '83-86	84½xd	17.9	8.91	12.67
1A	1O	S. Rhod. 2½pc Non-Ass.	157	—	—	—
—		Do. 3½pc 80-85 Assd.	65	10.2	5.38	18.01
—		Do. 4½pc 87-92 Asstd.	39xd	15.2	11.54	18.80
150	15A	Zimbabwe Ann (£100pa)	356	15.3	20.86	21.20

LOANS

Public Board and Ind.

1Ja	1J	Agric. Mt. 5pc '59-89	63½	1.1	7.87	13.10
1M	1S	Met. Wtr. 3pc 'B'	30	1.2	10.34	12.88
30J	31D	U.S.M.C. 9pc 1982	106xd	—	8.49	—
30J	31D	Do. without Warrnts.	100xd	—	9.00	—

LOANS—Continued

Financial

Building Societies

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS AND HIRE PURCHASE

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan.	July	ANZ SA1	215	15.6	Q28c	3.3	8.0	3.8
Feb.	Aug.	Alexanders D. £1	225	15.2	18.5	—	11.7	—
May	Aug.	Algemene Fl.100	£59½	30.4	Q26%	1.8	9.0	6.1
Dec.	June	Allied Irish	82	7.6	Q45.3%	ϕ	11.3	ϕ
	July	Ansbacher (H.) 5p	10¾	1.6	0.35	—	4.9	—
July	Jan.	Bk. Ireland £1	220	17.5	±Q29.4%	—	10.9	—
May	Nov.	Bk. Leumi $0.1	3	17.5	hQ8%	—	0.7	—
Aug.	Feb.	Bk Leumi (UK)£1	190	17.5	10.15	—	7.6	—
Jan.	July	Bk. N.S.W. SA1	150xd	21.6	Q24c	2.9	9.6	3.6
Nov.	May	Bank Scotland £1	343	30.4	21.0	4.5	8.7	2.8
Apr.	Oct.	Barclays £1	375xc	15.3	†22.0	5.1	8.4	3.8

BANKS & H.P.—Cont.

Hire Purchase, etc.

BEERS, WINES AND SPIRITS

BUILDING INDUSTRY, TIMBER AND ROADS

CHEMICALS, PLASTICS

CHEMICALS, PLASTICS—Cont.

DRAPERY AND STORES

ELECTRICALS

ENGINEERING—Continued

ENGINEERING MACHINE TOOLS

FOOD, GROCERIES, ETC.

FOOD, GROCERIES—Cont.

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Yld Gr's	P/E
Nov.	June	Jardine M. SHK5	164	25.4	u992c	2.3	5.4	8.1
July	Jan.	Jenks & Cattell	27xr	23.12	d1.8	—	5.4	—
Oct.	Apr.	Johnson Clnrs	265	29.3	†7.7	2.3	4.2	14.7
Feb.	Aug.	Johnson Mthy. £1	239xd	21.6	10.0	ø2.1	6.1	(8.9)
Jan.	July	Johnston Grp. 10p	194	17.5	4.0	6.2	4.3	5.4
Oct.	June	Jourdan (T.) 10p	68	25.3	5.25	0.6	11.0	(21.0)
May	Dec.	Kalamazoo 10p	44	19.4	2.5	0.9	8.1	20.4
Feb.	July	Kelsey Inds.	149	7.6	8.0	2.1	8.2	8.0
Oct.	Apr.	Kennedy Sm. 10p	165	15.2	ø14.38	4.1	3.8	8.7
Nov.	Apr.	Kershaw (A.) 5p	200	13	21.75	0.5	15.5	(12.8)
Jan.	Aug.	Kleen-E-Ze Hldgs.	45	23.12	5.5	0.7	17.5	(13.2)
Jan.	Aug.	L.C.P. Hlds	54xd	21.6	3.6	0.5	9.5	(40.5)
Oct.	April	L.R.C. Int. 10p	54½	15.2	2.5	1.6	6.7	12.0
Dec.	May	Lawtex	37	23.11	‡1.5	—	‡	—
July	Nov.	Lead Inds. 50p	158	30.4	9.66	1.8	8.7	(8.6)
Mar.	Oct.	Lep Group 10p	385	23.12	17.5	♦	6.7	♦
Oct.	July	Lilleshall 10p	30	30.4	2.5	—	11.9	—
July	Oct.	Lon. & Liv. 10p	56	7.12	2.45	♦	6.4	♦
Jan.	Sept.	London & Midl'd	81	7.12	7.75	1.1	13.7	(9.6)
Jul.	Dec.	Lon. & Nthn. Grp.	44	7.6	3.75	2.1	12.2	4.7
—		♦Lon. Priv. Health	33	—	—	—	—	♦
Jan.	June	Long Hambly. 10p	3½	12.79	B—	—	—	—
Apr.	Oct.	Longton Inds.	42	14.9	1.0	—	3.4	—
Aug.	Apr.	Lonsdale Universl.	65	15.2	♦1.0	0.9	2.2	(71.9)
Dec.	June	Low & Bonar 50p	96	15.3	7.0	1.6	10.4	(7.4)
June	Dec.	M.Y. Dart. 10p	21	23.11	1.33	—	9.1	—
May	Sept.	M'c'rthy Ph. 20p	159	13	7.0	2.8	6.3	7.4
Oct.	May	Macfarlane Gp.	109	19.4	4.0	2.2	5.2	11.2
July	Nov.	Macllellan 20p	36#	17.5	1.43	1.4	5.7	(15.8)
Aug.	Mar.	Macpherson (D.)	58	15.2	4.2	1.5	10.3	8.5
Oct.	Apr.	Magnolia Group	59	19.4	2.3	3.9	5.7	5.8
Apr.	Oct.	Man. Ship Can. £1	65	9/80	—	—	—	—
Aug.	Mar.	Marley	39	15.2	2.25	1.5	8.5	(10.3)
Feb.	Oct.	Marling Ind. 10p	35½	23.12	10.94	3.0	3.8	(9.9)
Dec.	Jun.	Marshall L'xy. 'A'	36	30.4	2.8	3.4	11.1	3.2
Jan.	July	Marshall's Univ	76	7.6	0.1	—	0.2	—
Dec.	May	Martin-Black	33	5.79	—	—	—	—
—		Mathesons 7¾pc	£126	30.4	Q7¾%	2.3	6.2	—
June	Nov.	Maynards	166	29.3	9.38	2.7	8.1	(5.1)

LEISURE—Continued

Dividends Paid		Stock	Price	Last xd	Div Net
Feb.	June	Fairline Boats 10p	37	23.12	d1.0
—		GRA Group 5p	14	—	—
February		Glasgow Pavilion 10p	23	3/77	—
Jan.	June	Grampian TV A 10p	43	17.5	3.25
May	Oct.	HTV Non/Vtg.	138	15.3	†10.0
May	Oct.	Horizon	183	19.4	b3.0
—		♦Intasun 10p	122	23.12	b2.8
January		Lancaster (D. M.) 5p	26	9.11	♦0.7
Dec.	Apr.	LWT "A"	145	19.4	†10.0
—		Leisure Inds. Grp.	127	—	g5.0
June	Jan.	Mngml. Ag. M. 10p	89	7.6	4.75
Apr.	Dec.	Medminster 10p	37½	15.3	3.7
—		♦Nimslo Int 20c	170	—	—
Jan.	Sept.	Norton & Wrt. 10p	43	23.12	d1.0
Jan.	July	OldSwin (Trate) 10p	67	1.6	g0.8
—		♦Owners Abroad	24¾	—	a0.35
Jan.	June	Photax (Lon.)	60	30.4	3.5
Sept.	Apr.	Pleasurama 5p	230	11.1	††4.75
July	Jan.	Riley Leisure 10p	96½	23.11	64.1
Apr.	Nov.	Saga Hols. 20p	130	29.3	††3.75
May	Dec.	Samuelson 20p	162	15.2	d8.77
Dec.	May	Scott. TV 'A' 10p	86	29.3	7.0
—		♦SelecTV 10p	39	—	—
—		TSW 5p	14½	—	H0.6
—		♦TVS N/Vtg 10p	51	—	—
Oct.	Apr.	Trident TV 'A' 10p	69	15.2	4.26
—		21st Century Dir. Cpn.	210	—	—
April	Sept.	Webb (Jos.) 5p	20	28.8	bd0.5
Apr.	Nov.	Zetters 5p	75	15.2	2.75

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Dividends Paid	Stock	Price	Last xd	Div Net
—	B.L. 50p	37	—	—
Mr.Je.S.D.	Gen. Mts. Units	128xd	17	Q12c

MINES—Continued

Central African

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
Nov.	May	Falcon Rh. 50c	80	1.5	Q25c	10.3	23.3
Nov.	May	Wankie Col. Z$1	20	19.4	Q3c	1.2	12.1
—		Zam.Cpr.SBD0.24	14	9/80	—	—	—

Australian

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
—		ACM 20c	11½	—	—	—	—
—		Argosy Gold NL 25c	2½	—	—	—	—
—		Bond Corp.	66	—	gQ10c	2.3	9.7
Nov.	Apr.	Bougainville I Kina	62	7.3	Q6½c	1.2	6.4
May	Nov.	CRA 50c	162	15.3	Q5c	—	1.8
—		Carr Boyd 20c	13	—	—	—	—
—		Central Pacific	30	—	—	—	—
—		Crusader Oil	255	—	—	—	—
—		Cultus Pacific N.L.	11½	—	—	—	—
—		Eagle Corp. 10c	18	—	—	—	—
—		Endeavour 20c	10	—	—	—	—

Miscellaneous

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
—		Anglo-Dominion	20	—	—	—	—
	May	Burma Mines 10p	12½	30.4	0.55	1.8	6.3
—		Colby Res. Corp.	42	—	—	—	—
Aug.	Feb.	Cons. Murch. 10c	180	23.12	‡Q60c	1.9	‡
—		‡‡Explaura Gold	4	—	—	—	—
—		Highwood Res.	60	—	—	—	—
—		Northgate C$1	170	9/77	—	—	—
Jan.	July	R.T.Z.	360	7.6	16.0	2.1	6.4
Jan	July	Do.9½%Cn.Ln.'95-2000	£88	7.6	Q9½%	30.0	11.4
—		Sabina Inds. C$1	11	—	—	—	—
—		♦Southwest C. 10p	32	—	—	—	—
—		Tara Exptn. $1	305	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 163(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♦ Same interim; reduced final and/or reduced earnings indicated.
- $ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.
- ♥ Rate applicable to non-Zimbabwean residents.

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1983-84. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1982. K Figures based on prospectus or other official estimates for 1981-82. M Dividend and yield based on prospectus or other official estimates for 1983. N Dividend and yield based on prospectus or other official estimates for 1982-83. P Figures based on prospectus or other official estimates for 1982. Q Gross. T Figures assumed. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL AND IRISH STOCKS

The following is a selection of regional and Irish stocks, the latter being quoted in Irish currency.

			IRISH		
Albany Inv. 20p	49	......	Conv. 9% '80/82	£98	+⅛
Bertrams	17#	......	Nat. 9¾% 84/89	£66xd	......
Bdg'wtr. Est. 50p	418	......	Fin. 13% 97/02	£79¼	+⅛
Craig & Rose £1	£12½	......	Alliance Gas	88	......
Finlay Pkg. 5p	26	......			

OPTIONS

3-month Call Rates

Brit. Aerospace	17	Lucas Inds.	20	Samuel Props.	11
B.A.T.	38	"Mams"	12	Town & City	3½
Brown (J.)	7	Mrks. & Spncr	12		
Burton Ord.	15	Midland Bank	30	**Oils**	
Cadburys	9	N.E.I.	9	Brit. Petroleum	26
Courtaulds	8	Nat. West. Bank	38	Burmah Oil	10
Debenhams	7	P & O Dfd.	14	Charterhall	6
Distillers	15	Plessey	32	KCA	14
Dunlop	6½	Racal Elect.	35	Premier	6
Eagle Star	31	R.H.M.	6½	Shell	30
F.N.F.C.	4	Rank Org. Ord.	20	Tricentrol	22
Gen. Accident	28	Reed Intnl.	26	Ultramar	38
Gen. Electric	65	Sears	6		
Glaxo	42	T.I.	13	**Mines**	
Grand Met.	17	Tesco	5½	Charter Cons.	25
G.U.S. 'A'	45	Thorn EMI	42	Cons. Gold	45
Guardian	25	Trust Houses	11	Lonrho	7
G.K.N.	15	Turner & Newall	11	Rio T. Zinc	7
Hawker Sidd	30	Unilever	55		

"Recent Issues" and "Rights" Page 14

This service is available to every Company dealt in on Stock Exchanges [illegible] for a fee of £600

FINANCIAL TIMES
Monday July 5 1982

Political storm looms over Nissan

BY KENNETH GOODING IN LONDON AND RICHARD HANSON IN TOKYO

A POLITICAL row in Britain is expected this week following reports that Nissan of Japan, the Datsun car maker, almost certainly will shelve its proposed 200,000 a year car plant in the UK.

Some MPs blamed Industry Department officials for the breakdown in talks with Nissan. They say the officials, influenced by heavy lobbying by the UK motor components industry, discouraged the Japanese group by insisting that a very high level of local (that is, European), components be used.

Nissan's decision was reported by Asahi Shimbum, the influential Japanese daily newspaper.

It quoted Mr Takashi Ishihara, Nissan's president, as saying: "There is a strong opinion within our company that the project is very risky. We cannot force ourselves to go ahead when there is no company consensus."

A senior Nissan executive will travel to London later this month to tell the UK Government about his company's decision, the report added.

The possibility that Nissan might set up the plant was announced in a blaze of publicity in January last year. It promised to be a triumph for Government attempts to attract more investment in Britain by foreign companies.

Mr Norman Tebbit, then Minister of State at the Department of Industry, said it would be much better for "the British to buy Japanese cars built in Britain than cars imported from the Continent." Nissan would give the UK motor industry a shot in the arm by injecting Japanese production knowhow.

However, the UK motor industry said it would be weakened if Nissan was permitted to build engines and cars in Britain mainly from kit and low-cost components imported from Japan.

A Ford paper estimated that UK-based car makers would be forced to source some of their components from Japan and there could be a net loss of 30,000 jobs in the UK components sector.

Nissan promised to give its decision within six months, but delayed again and again as its feasibility studies showed the project might be only marginally viable if the group stuck to its initial undertaking that the European component content of its cars would start at 60 per cent and rise to 80 per cent as quickly as possible.

Other factors which influenced the decision included:

Nissan has been forced to increase its stake in Motor Iberica of Spain to a majority holding of 54 per cent. The initial plan is for Iberica to produce commercial vehicles but this could be expanded to include cars after Spain joins the EEC.

There are growing signs that Europeans' love affair with Japanese cars is waning. Europeans have found that Japanese vehicles have similar faults to the local product.

It is clear that car demand in Europe will rise only a little over 1 per cent a year for the foreseeable future, and there is too much capacity.

The Europeans have improved labour productivity considerably in the face of Japanese price competition.

Anti-Japanese protectionism in Europe has not been alleviated greatly by the publicity given to the proposed British project.

Peter Riddell, Political Editor, adds: At Westminster, ministers will be criticised by Labour MPs for raising hopes excessively high when Nissan's initial interest in investing in Britain was announced. MPs in areas of high unemployment are likely to be especially bitter, although among those in motor industry constituencies there may be some relief at the absence of a further threat to BL.

Austin Rover seeks cuts price parts, Page 6

Unions agree cash plan for Labour

BY ELINOR GOODMAN, POLITICAL CORRESPONDENT

THE TRADE UNIONS agreed yesterday to provide the Labour Party with the financial means to fight the next election.

In return Labour's politicians are expected to show the necessary political will to win the election by uniting behind the leadership of Mr Michael Foot and to behave in future as an alternative party of government.

At a meeting yesterday between leaders of Labour and of the unions belonging to Trades Unions for a Labour Victory the unions agreed to set up a General Election fund for the Labour Party with a target of £2m to £2.5m by 1983.

The aim is to raise £1m by the end of this year in case of an early General Election, a possibility discussed with some alarm yesterday.

The representatives agreed to ask member-unions to raise affiliation fees to the Labour Party from 45p a head to 50p.

This should raise about £300,000 and help reduce the Labour Party overdraft, which is expected to be £500,000 by the New Year.

The two sides will examine ways of improving management of Labour's finances in future.

The agreement is fundamental to Labour Party hopes of winning the election, and was presented yesterday as part of a new drive for unity in the party.

No precise strings were attached to the agreement, but implicit throughout yesterday's meeting was the unions' view that the party would not deserve financial support unless it put its own house in order.

This means that the party will be expected to unite behind Mr Foot and that there should be no repeat of last year's deputy leadership contest.

The moves against the Trotskyist Militant Tendency will go ahead, but as part of the spirit of unity the Right may have to accept some policy decisions it would like to reverse.

Later Mr David Basnett, chairman of Trade Unions for a Labour Victory and general secretary of the General and Municipal Workers' Union, said that the significance of the meeting was the commitment to uniting behind the leadership to win the election.

The unions, he said, had provided the "sinews" for Labour to win.

The agrement would involve an economy drive at Labour's headquarters in Walworth Road. Mr Basnett made clear later that the unions would have to tighten their belts to find the money for the party, and that under these circumstances they expected similar sacrifices by the party.

The unions have long been Labour's paymasters. But yesterday's meeting was highly significant for the way it demonstrated that despite the emergence of the SDP, and the Labour Party's poor standing with the electorate, the unions still regarded the party as the best vehicle for their political aspirations.

At the meeting union leaders made it clear that they were desperately worried about the prospects of the Tories winning the election, and thought it essential to the interest of their members that the Labour Party started concentrating on putting its policies over to the electorate, rather than feuding in public.

Mr Foot said it was "an extremely good meeting" and that the decisions would make it possible for Labour to win.

Leaders of almost all the big trade unions were at the meetings, together with leading members of Labour's executive. Despite the dependence of the Labour Party on the unions for funds, the far Left is very hostile to Trades Unions for a Labour Victory, and Mr Tony Benn left the meeting hastily without speaking to reporters.

Isle of Man seeks advice on banking structure

By Anthony Moreton, Regional Affairs Editor

THE ISLE OF MAN Government has asked the Bank of England to review the structure of its banking system following the collapse of two small banks over the past 10 months.

Dr Edgar Mann, the island Finance Board chairman, said: "We are seeking advice on the highest level on the structure of our banking system. We approached the Bank of England because if it is found that we need to change our system of control we must get advice from the people best qualified to give it."

The Bank is believed to be willing to co-operate with the Isle of Man and a small team of officials is expected to arrive in Douglas shortly. It will pay particular attention to the way the island exercises control over its banks.

The Isle of Man's Crown dependency status means it can legislate for itself on all matters other than foreign affairs and defence. One of the ways in which it has moved has been to set up an offshore finance centre, more popularly called a tax haven. Income tax on the island is at a fixed 20p in the pound and there are no capital taxes of any sort.

This has led to a number of wealthy people emigrating to the island, including Mr Robert Sangster, the race horse owner who won the Derby this year with Golden Fleece, and Mr Richard Adams, author of Watership Down.

The island is, however, part of the sterling area and so has close links with the Bank.

Financial control is exercised by its treasury. Dr Mann, the island's equivalent of the Chancellor of the Exchequer, said that one of the matters to be discussed with the Bank was whether the island should have its own central bank.

"We are definitely missing the presence of a central bank. We do have an Isle of Man Bank, but that is a subsidiary of National Westminster and acts as a clearing bank."

"The problem is that when we in government want to seek assistance we have nowhere to go on the island."

The island's problems surfaced last autumn with the collapse of International Finance and Trust Corporation, a small merchant bank.

On June 25 the island withdrew the licence to operate from Savings and Investment Bank following High Court actions.

One step mooted recently in Douglas has been the appointment of a banking inspector who would spend his time solely with the banks. There has been political opposition to this move because the salary involved would be out of line with those in the Manx civil service.

Roy Jenkins to quit Morgan Grenfell post

BY PETER RIDDELL, POLITICAL EDITOR

MR ROY JENKINS intends to resign as a director of Morgan Grenfell, the merchant bank, following his election on Friday as leader of the Social Democratic Party.

He said at the weekend that he did not think it appropriate for a leader of a political party to have outside interests and indicated that in recent months, from the Hillhead by-election onward, the bank had taken up less of his time.

Mr Jenkins is believed to have been paid less than £10,000 a year for his part-time directorship of Morgan Grenfell Holdings. He hads the services of a chauffeur-driven car.

He still receives £30,000 a year until the end of 1983 as a farewell payment from the EEC Commission after his term as President, though this may now be adjusted for his salary as MP.

His appointment in early 1981 to the bank's board caused controversy in view of his EEC payment.

He clearly now wants to avoid any such criticism.

Mr Jenkins had a preliminary meeting over the weekend with Mr David Steel, the Liberal leader, to discuss the main issues facing the Alliance.

Their main priorities are to start preparations for a joint campaign for the next General Election, and rapid completion of talks on the shareout of Parliamentary seats and on selection of candidates.

Both leaders face some problems inside their own parties about attitudes toward the Alliance.

Mr Steel's need to win over his rank-and-file at the Liberal Assembly in late September may affect the timing of the choice of the Prime Minister candidate on behalf of the Alliance, still likely to be Mr Jenkins.

There are also delicate issues about the extent to which there should be a joint manifesto at the election; whether there should be joint spokesmen in the Commons; and about fund-raising

Mr Jenkins faces a difficult personal challenge in re-establishing his authority in the Commons, where in the three months since his return after the Hillhead by-election he has been overshadowed by Dr David Owen, the parliamentary leader until now.

All the signs are that Mr Jenkins intends to leave until the autumn decisions about the responsibilities of the other members of the Gang of Four (Dr Owen, Mrs Shirley Williams and Mr William Rodgers).

Editorial comment, Page 12

Howe opens debate on manifesto

BY PETER RIDDELL, POLITICAL EDITOR

A SHIFT to private enterprise for many of the activities now within the public sector should form the core of the Conservative Party programme at the general election and in the next Parliament, Sir Geoffrey Howe, Chancellor, said at the weekend.

In a Cambridge lecture, Sir Geoffrey sought to set the terms of the debate now beginning in the Tory Party about the next election manifesto. Senior ministers are now much more confident that the Tories will win the next election, and they therefore believe that attention should shift ahead, especially as many of the detailed legislative pledges of the 1979 manifesto have been fulfilled.

Sir Geoffrey, who sees himself as a major influence on the redirection of Conservative thinking over the last few years, placed stress on widening choice and ownership, deregulation and making markets work.

His emphasis on what has become known as privatisation is in line with the views of many of the ministers promoted by Mrs Thatcher in the last couple of years.

Sir Geoffrey also highlighted reform of the labour market as a means of tackling the root causes of unemployment.

His suggestions on loosening "the grip of the public sector" covered industrial policy, local government and the social services. Among the ideas put for consideration were:—

- Increased market influences, and some private ownership, of public utilities.
- Some local authority services should be transferred to private enterprise.
- Increased use of charges and some private sector involvement in social services.
- More consumer choice in the NHS and faster growth of private health insurance.
- Encouragement of role of voluntary effort in personal social services.
- Wider choice in education, possibly through a voucher system whereby parents would have a greater selection of schools for their children, student loans and more community involvement in financing and management of local schools.

Many of these ideas are likely to be strongly criticised, not only by other political parties but also by many in the industries and services affected. But they are generally in tune with Mrs Thatcher's preferences.

Growth forecasts, Page 6; Inflation still the enemy, Page 13

Weather

UK TODAY

SUNNY intervals but showers in North.

E. England, Midlands and N. Ireland

Mainly dry with sunny periods. Max 20C (68F).

W. England, S.W. Scotland and Wales

Mainly dry but light showers. Max 19C (66F).

E. and N.W. Scotland

Cloudy with showers, especially early, some heavy. Max 17C (63F).

Outlook: Rain with some sunshine.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	26	79	L. Ang.†		—	—
Algiers		—	—	Luxmbg.	F	17	63
Amsdm.	F	17	63	Luxor	S	35	95
Athens	S	27	81	Madrid	S	29	84
Bahrain		—	—	Majorca	S	32	90
Barclna.	S	27	81	Malaga	F	20	68
Beirut		—	—	Malta	S	32	90
Belfast	C	14	57	M'chstr	C	17	63
Belgrd.	S	33	91	Melbne.	F	11	52
Berlin	F	19	66	Mx. C.†		—	—
Biarritz	C	21	70	Miami†	S	26	79
Bmghm.	R	16	61	Milan	S	29	84
Blackpl.	C	17	63	Montrl.†	F	13	55
Bordx	S	24	75	Moscow	F	18	64
Boulgn.	C	14	57	Munich	F	16	61
Bristol	C	15	59	Nairobi	C	23	73
Brussels	F	17	63	Naples	S	29	84
Budpst.	T	28	82	Nassau		—	—
Cairo	S	30	86	Nwcstl.	C	17	63
Cardiff	C	17	63	N York†	S	19	66
Cas'b'ca	F	21	70	Nice	C	24	75
Cape T.	S	17	63	Nicosia		—	—
Chicg.†	C	19	66	Oporto	F	23	73
Cologne	F	19	66	Oslo	F	19	66
Cpnhgn.	C	17	63	Paris	F	20	68
Corfu	S	29	84	Perth	C	15	59
Denver†	C	14	57	Prague	F	16	61
Dublin	R	16	61	Rykjvk.	S	12	54
Dbrvnk.	S	26	79	Rhodes	S	27	81
Ednbgh.	R	15	59	Rio J'o†		—	—
Faro	F	18	64	Rome	S	30	86
Florence	S	30	86	Salzbrg.	C	19	66
Frankft.	F	21	70	S'crscot	S	13	55
Funchal		—	—	S. Mritz.		—	—
Geneva	S	22	72	Singapr.	F	29	84
Gibrltr.	F	21	70	S'tiago†		—	—
Gl'sg'w	R	13	53	Stckhm.	F	16	61
G'rnsey	C	15	59	Strasbg.	F	21	70
Helsinki	C	18	64	Sydney	C	15	59
H. Kong	R	25	77	Tangier	C	22	72
Innsbrk.	S	19	66	Tel Aviv	S	27	81
Invrnss.	C	16	61	Tenerife	F	24	75
I.o.Man		—	—	Tokyo	R	20	68
Istanbul	S	27	81	T'r'nto†	C	15	59
Jersey	C	16	61	Tunis	S	37	99
Jo'burg	S	12	54	Valencia	F	27	81
L. Plms.	F	23	73	Venice	S	29	84
Lisbon	R	15	59	Vienna	C	17	63
Locarno	S	28	82	Warsaw	T	18	64
London	C	16	61	Zurich	F	18	64

C—Cloudy. F—Fair. Fg—Fog. H—Hail. R—Rain. S—Sunny. Sl—Sleet. Sn—Snow. T—Thunder.
† Noon GMT temperatures.

Guinness Peat in £11m commodity sale

BY ALAN FRIEDMAN

CONTROL OF the commodity business of Guinness Peat, the troubled group which disclosed on Friday a £15m loss provision, is being sold to a group of managers and investors, led by Lord Kissin, in a deal worth £11m, of which £6m is to be paid in cash.

Guinness Peat will exchange about £3m of the Lewis and Peat commodity group's assets for redeemable preference shares, and will hold an initial equity stake of 15 per cent, to rise to just less than 20 per cent, in the commodity business.

Redemption of the preference shares will begin after about three years. Guinness Peat, meanwhile, through its ordinary and preference shareholdings, will be entitled to receive up to 37 per cent of commodity profits.

The group led by Lord Kissin —which includes the managers Mr Harry Phillips, Mr David Burt, Mr Ron Watts, Mr Ron Cowing, Mr Dennis Cowley, Mr Robert Kissin and Mr John Wheeler—will take over about £40m of the trading debt bound up in the commodity business. This in turn should reduce the Guinness Peat group's outstanding debt from about £90m it is now.

Lord Kissin, who will be chairman of the commodity business, said yesterday he expected Guinness Peat to issue notice of an extraordinary meeting of shareholders within a fortnight, in order to seek approval of the deal. He stressed that, in spite of the disagreements of the past few months, he would support the Guinness Peat board. "I am sorry that I was right about the board's mistakes (in recent years), but I will support the future management of the company."

Lord Kissin, who remains life-president of the group, said his past disagreements with the board of Guinness Peat had been over "issues where the board took decisions and did not have complete information." Referring to Mr Edmund Dell, the former Trade Secretary in a Labour administration, who is chairman of Guinness Peat, Lord Kissin commented: "Having gone through this traumatic experience, I think Mr Dell is now a constructive influence."

Mr Dell yesterday acknowledged "ultimate responsibility" for the dealings with Performance Tire, the Los Angeles company which imported tyres into the U.S. and was financed by a Guinness Peat subsidiary in the UK. It was because of Guinness Peat's difficulty in recovering funds from Performance Tire that the £15m loss provision was made on Friday.

Mr Dell said he had no intention to resign, although he had to acknowledge responsibility as chairman.

Trading in Guinness Peat shares is to begin again today, having been suspended at 57p on Thursday at the company's request. It is believed that a large block of shares changed hands on Wednesday evening, but Mr Alastair Morton, chief executive, said on Friday he was unaware of whether the Stock Exchange would conduct an investigation.

THE LEX COLUMN

CU tries to buck the trend

FEW leading British companies have attracted such controversy and suspicion as Commercial Union over the past decade. In spite of the new management's attempt to reorganise its structure and improve an image which was gravely impaired in the mid-1970s, the City remains deeply divided over the group's prospects.

To judge from the share price performance, the bearish line still predominated. CU has increased its dividend every year over the past decade except in 1975, when the pay-out was maintained on a pre-tax loss of £10.2m. If this suggests that the current year will produce a further increase, then the current historic yield of 13 per cent on CU equity, the highest in the insurance sector, must indicate serious misgivings about the group's strategy.

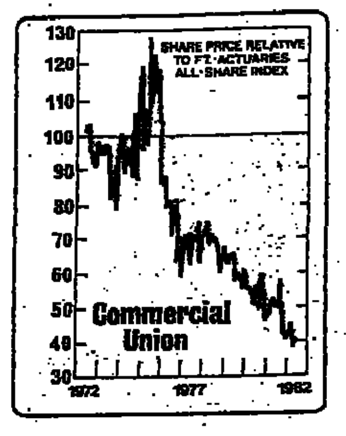
The success or failure of CU's recent change of direction, most pronounced in the U.S., will not be established for several years. So, even at the present share price level, investment in CU demands an act of faith in the quality of the group's management.

The company has, however, acquired its disciples. One of them, Laing and Cruickshank, has just completed a study entitled "The New Commercial Union" which argues strongly, if uncritically, in favour of the shares. The study supports CU's decision to concentrate its resources in the principal markets of North America and Europe as a way of spreading risk through different lines while creating the maximum benefit from economies of scale.

The heart of the study concerns CU's U.S. strategy and the damaging mythology which L & C believes has grown up around it. The U.S. is far and away CU's most important market. Last year it accounted for 47 per cent of non-life premium income and 65 per cent of the group's underwriting loss. It is also the area of most rapid premium income growth—23 per cent last year —and the focus of management's attention.

L & C maintains that the $250m which the group has invested in data processing and marketing over the past few years will enable it to increase its market penetration from a lower cost base and without any real deterioration in loss ratios. CU itself expects its expenses ratio to drop from a current level of 33 per cent to under 30 per cent within the next few years, as the benefits of its computer system work through.

CU increased its share of the market last year from 1.2 to 1.5 per cent, to a large degree



by strengthening its relationship with independent agents. According to L & C, the company is attempting to arrest the inroads which direct writers have made in the U.S. market while keeping tight control over underwriting risk. L & C believes there is little evidence that delegation of the underwriting pen has damaged CU's performance. Indeed, CU has improved its loss ratios relative to the market at a time when it has also needed to provide additional reserves for bad business taken on in the early 1970s. Last year's loss ratio of 73.5 per cent compares favourably with an industry average of 75.5 per cent.

L & C also disputes the frequently expressed claim that CU is under-reserved in the U.S. On the face of it, CU has a case to answer. The property casualty industry as a whole has significantly improved the ratio of loss and loss expense reserves to earned premiums as the market has deteriorated. Last year, alone, the ratio improved from 98.7 to 104.8 per cent. CU, by contrast, has reported a progressive weakening of the ratio. At the end of 1981, it stood at only 85.3 per cent.

According to L & C, these figures ignore the fact that CU has shifted the emphasis of its business away from long term risks toward shorter-tail personal lines, at the same time as speeding up the process of claims settlement. Moreover, its own balance sheet is much more conservatively financed than it was a few years ago. CU has raised £178m from its shareholders since 1974, reducing the ratio of debt to shareholders funds from a peak of almost 100 per cent to 16 per cent last year.

The L & C study makes a plausible long-term case for CU. But it fails to examine the potential pitfalls of a strategy which is geared for growth during a period of appalling underwriting losses. CU's U.S. premium income grew last year at more than twice the rate of any of the other 20 leading U.S. companies. The giant Aetna actually reported a 2.1 per cent fall in its premium income.

To an extent, CU is committed to a growth strategy in order to fill the capacity which its data processing system has created and so reduce its very high expenses ratio. It could hardly have picked a worse time. The U.S. industry's catastrophe losses almost tripled in the first three months of this year to a record $404m. The second quarter was even worse — losses amounted to $600m.

Those figures are certainly exceptional but the basic underwriting climate is still deteriorating. The U.S. industry suffered an underwriting loss of $6.4bn last year. The position is bound to worsen this year and, without a serious jolt to the system, could carry on down in 1983. CU's first quarter U.S. operating ratio of 115.8 was hardly reassuring in the circumstances.

The group can justify a growth profile in the U.S. only if it is writing better than average risk or if its investment performance is strong enough to produce a healthy overall return. It has taken a very independent line on risk assessment, believing that the profit incentives it has provided to independent agents will enhance the quality of its business. In motor lines, it has introduced rating parameters wholly different from the rest of the industry. It is still far too early to judge the success of these experiments.

Its U.S. investment portfolio is heavily committed to Federal Government bonds with a maturity structure which broadly matches the expected profile of payment on claims. But, in common with the rest of the industry, CU could find that its overall return is diminished if a fall in U.S. interest rates is not followed immediately by an adjustment in premium rates. At the moment, its rates are among the most competitive in the U.S.

In the present climate, CU cannot afford to have its reserving policy questioned. There is no reason to doubt its assertion that reserves are adequate; but the switch towards shorter-tail business does not emerge clearly from the returns of the U.S. insurance department.

CU can draw little comfort from the environment in its other main trading areas—the UK, Holland and Canada. Its shares are sustained by a remarkably open-handed distribution policy and, without minimising the considerable long-term potential for growth they remain a high risk investment.